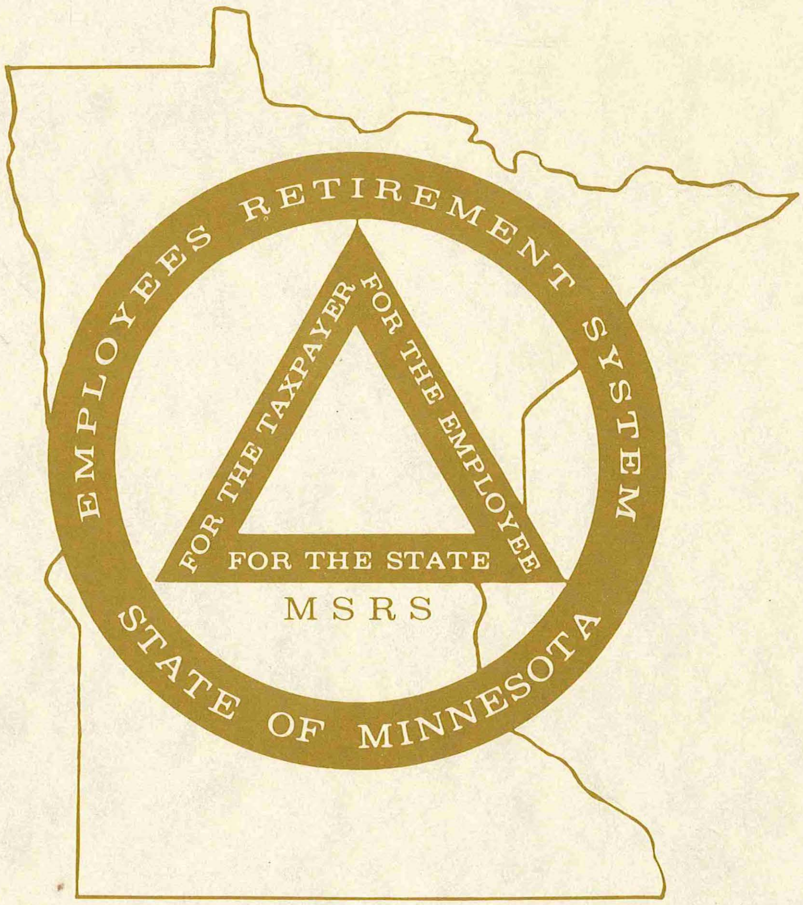
GOLDEN ANNIVERSARY EDITION

MINNESOTA

STATE

RETIREMENT

SYSTEM



COMPREHENSIVE ANNUAL REPORT
STATE EMPLOYEES RETIREMENT FUND
JUNE 30, 1980

Pursuant to Mn Stat 356.20

COMPREHENSIVE ANNUAL FINANCIAL REPORT
of the
STATE EMPLOYEES RETIREMENT FUND
for the
FISCAL YEAR ENDING JUNE 30, 1980

Paul L. Groschen
Executive Director
529 Jackson Street at 10th
St. Paul, MN 55101

MINNESOTA STATE RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1980

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OFFICERS

Paul L. Groschen, Executive Director

Assistant Directors
Douglas Mewhorter
Warren D. Dreyer

MINNESOTA STATE RETIREMENT SYSTEM

529 Jackson at 10th Street St. Paul, Minnesota 55101

Tel. (612) 296-2761

LETTER OF TRANSMITTAL

To The Board of Directors
Minnesota State Retirement System

The annual report of the Minnesota State Retirement System for the fiscal year ended June 30, 1980, is submitted herewith. Fiscal 1979 figures are included for comparison. The report covers the operation of the State Employees Retirement Fund and includes financial and statistical data on the General State Employees Plan, the Correctional Employees Plan, the Unclassified Employees Plan, and the Deferred Compensation Plan. Separate reports were issued for the Highway Patrolmen's Plan and the Judicial Retirement Plan.

The fiscal year ending June 30, 1980 completes 50 years of operation. A separate section in the report details the growth of the System since its inception. There are seven sections included in this report. The first being the introduction and general information and the remaining six the financial, actuarial and statistical information.

Accounting System and Reports

The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues for the System are taken into account when earned without regard to date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Fixed assets are recorded at cost and depreciated through charges to expense over the estimated useful lives of the assets.

Professional Services

The actuarial firm of The Wyatt Company, represented by Allan J. Grosh, F.S.A. and Alan J. Schutz, A.S.A. is retained on contract to provide actuarial services for the System. Actuarial valuations must be made annually while experience studies must be made every four years as provided by Minnesota Statutes 356.215. The last experience study was performed as of June 30, 1979 and the recommended changes are described in section I. The actuaries certification letter and required schedules for fiscal 1980 are also included.

The State Commissioner of Health, or his designee, is the medical advisor to the System as provided by Minnesota Statutes, 352.03, Subd. 8. It is his responsibility to designate physicians to examine disability applicants, investigate medical statements for disability applicants and report his conclusions and recommendations to the Executive Director.

The Attorney General, represented by Merwin Peterson, is the legal advisor to the System as provided for by Minnesota Statutes 352.03, Subd. 11. There were no litigation proceedings during fiscal 1980, nor are there any pending.

The Legislative Auditor is charged with the responsibility of auditing the books and records of MSRS. His audit opinion for the fiscal year ended June 30, 1980 is included in this report as it was for F.Y. 79.

Administration

Continued effort was made this year to bring the highest quality of service to the covered employees through group retirement presentations, individual counseling in person or by telephone or written correspondence and informational data supplied. A major undertaking in the computerization of a data base to assist us in supplying this information went forward with completion expected next year. There was also a reorganization establishing five divisions within MSRS and a second assistant director position to be more responsive to the Systems needs. Mr. Douglas Mewhorter was appointed first assistant director responsible for the Records, Employee Services and Deferred Compensation/ Unclassified Plan Division. Mr. Warren Dreyer was appointed assistant director responsible for the Accounting and Systems Divisions. Mr. Arne Ulvi, former assistant director, retired after thirty dedicated years of service.

Acknowledgements

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and their employers.

It is being sent to all active and retired participants of the fund, board members, and certain other interested parties.

I would like to take this opportunity to express my gratitude to the Board of Directors, staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,

Paul L. Groschen
Paul L. Groschen
Executive Director

Warren D. Dreyer
Finance Officer

MINNESOTA STATE RETIREMENT SYSTEM
ADMINISTRATIVE ORGANIZATION
JUNE 30, 1980

BOARD OF DIRECTORS

Francis D. Hage, Chairman
DNR-Division of Lands & Forestry
2223 Selmser Avenue
Cloquet, Minnesota 55720
Telephone 218/879-4544 or 879-8636
Term: March 7, 1978-March 1, 1982
Elected—State Employee

Carolyn Anderson, Vice Chairwoman
University of Minnesota
2226 Arthur St. N.E.
Minneapolis, Minnesota 55418
Telephone 612/373-3991 or 789-9368
Term: March 4, 1980-March 5, 1984
Elected—State Employee

Joseph J. Bright
2189 Powers Avenue
St. Paul, Minnesota 55119
Telephone 612/735-6906
Term: March 4, 1980-March 1, 1982
Elected—Retired State Employee

Karl W. Christey
Minnesota State Patrol
565 Wheeler Drive
Excelsior, Minnesota 55331
Telephone 612/482-5902 or 474-6167
Term: March 7, 1978-March 1, 1982
Elected—Highway Patrol Member

Lyle Farmer
St. Paul Teachers Retirement Fund Assoc.
7447—101st Street North
White Bear Lake, Minnesota 55110
Telephone 612/222-8689 or 429-6677
Term: November 5, 1973-January 5, 1981
Appointed—Public Member

Janet B. Humphrey
Higher Education Coord. Board
1748 Wellesley Avenue
St. Paul, Minnesota 55105
Telephone 612/296-9685 or 699-2727
Term: March 7, 1978-March 1, 1982
Elected—State Employee

Richard G. Ryan
Metropolitan Transit Commission
2985 Vincent Avenue North
Minneapolis, Minnesota 55411
Telephone 612/379-2914 or 529-2423
Term: March 4, 1980-March 5, 1984
Appointed—MTC/TOD Designate

Ernest Thomsen
813 Bald Eagle Avenue
White Bear Lake, Minnesota 55110
Telephone 612/429-7076
Term: October 17, 1978-January 5, 1981
Appointed—Public Member

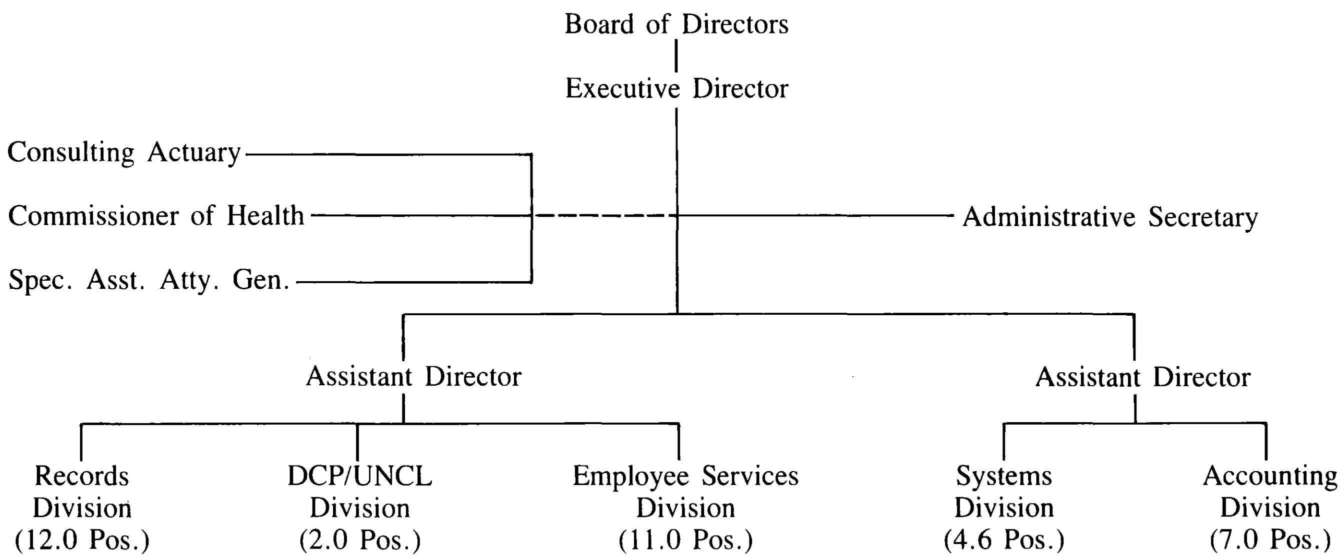
Lou Wangberg
Lieutenant Governor
Route 6
Bemidji, Minnesota 56601
Telephone 612/296-2374 or 218/751-1428
Term: Co-Terminous with Governor's
Appointed—Constitutional Officer

Bernard O. Weber
Department of Transportation
126 Riverside Drive N.E.
St. Cloud, Minnesota 56301
Telephone 612/255-4268 or 251-6766
Term: March 4, 1980-March 5, 1984
Elected—State Employee

OFFICERS

Paul L. Groschen, Executive Director
Douglas Mewhorter, Assistant Director
  Employee Services and Records
Warren D. Dreyer, Assistant Director
  Finance and Systems

MINNESOTA STATE RETIREMENT SYSTEM
ORGANIZATION CHART
June 30, 1980



Number of Positions		
	Unclass.	Class.
Full Time	2.0	37.0
Part Time	.0	.6
Student	1.0	.0
	3.0	37.6

OFFICERS

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Assistant Directors
Douglas Mewhorter
Warren D. Dreyer

MINNESOTA STATE RETIREMENT SYSTEM

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Tel. (612) 296-2761

CHAIRMAN'S REPORT

To all Participants
of the
State Employees Retirement Fund

This annual report of the Minnesota State Retirement System again illustrates the continued progress of the financial condition of the State Employees Retirement Fund. The State of Minnesota recognizes the important role served by a retirement system in attracting and retaining competent employees, and is committed, as is the Board of Directors, to maintain a sound system.

Through its retirement plan, the State of Minnesota makes promises of future payments to its employees. To assure that these benefits will be paid, actuarial valuations are performed every year, and experience studies every four years, to determine costs and to test the adequacy of the financing.

The Board receives and considers requests for improvement or change in the retirement plan. The Board weighs several factors in determining whether to recommend to the legislature that a benefit should be added; prinicipally need, cost and equity of the proposed provision. As the Board has a responsibility to maintain a sound system, adequate financing for each plan improvment must be a major consideration.

The MSRS Board of Directors experienced one change during the fiscal year. Mr. Weber, representing state employees, replaced Mr. Blanck, who had served with distinction for several years. Miss Anderson, also representing state employees, was re-elected to a four year term, and Mr. Bright, representing retired employees, was re-elected to a two year term. Mr. Ryan, representing the MTC/TOD employees, was reappointed by the MTC/TOD union to a four year term.

This year of operation is somewhat of a milestone in the history of MSRS, as it is the 50th year of operation. A separate section in this report depicts the growth of the fund since its inception on July 1, 1929. This special section on the 50th anniversary of the fund highlights some of the changes that have taken place and we, the Board, are proud to have been a part of this historical event.

On behalf of myself, the other members of the Board, and the MSRS staff, I would like to express my thanks to all the System's participants and advisors. We ask for your continued support, so that through a group effort, we may continue to provide a sound and secure retirement future.

Sincerely,

Francis D. Hage

Francis D. Hage
Chairman,
Board of Directors

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

GENERAL INFORMATION

1980 LAW CHANGES

PENSION RIGHTS

No person can acquire a nonforfeitable interest or right to any pension plan modification contained in legislation until a two year period has elapsed. (Laws 1980, Chapter 342, Sec. 20)

PROPORTIONATE ANNUITY

The minimum service required for a proportionate annuity was reduced from three years to one year for any member who terminates active service at age 65 or older. The annuity is calculated under the applicable laws of each fund in which he has credit. (Laws 1980, Chapter 342, Sec. 15)

APPROPRIATIONS

All open appropriations for State General Fund money were changed to direct appropriations. A request is submitted with the biennial budget for approval by the Governor and Legislature. If the appropriation is not adequate, additional funds may be obtained by certifying the amount needed to the Commissioner of Finance, the Committee on Finance of the Senate and the Committee on Appropriations of the House. (Laws, 1980, Chapter 614, Sec. 57)

STATE INCOME TAX ON PENSIONS

The maximum exclusion of pension income from gross income for state income tax purposes was raised from $10,000 to $11,000 which is reduced only by the amount that the individuals federal adjusted gross income exceeds $17,000. (Laws 1980, Chapter 607, Art. I)

STATE BOARD OF INVESTMENT

The statutes governing the State Board of Investment were completely recodified from Chapter 11 to Chapter 11A. The new statutes provide for an Investment Advisory Council of which the Executive Director of MSRS is a voting member, expanded the list of allowable investments so that the assets can be invested to maximize the total rate of return without incurring undue risk, and created a combined investment fund for securities other than fixed income securities. This is a pooling arrangement similar to the Supplemental Retirement Fund in that a retirement fund or plan would not own specific securities, but an undivided participation in the investment fund. The other major change was the renaming and restructuring of the Minnesota Adjustable Fixed Benefit Fund (MAFBF) to the Minnesota Post-Retirement Investment Fund (MPRIF) as described later in this section. In addition to the above, there were other minor changes and technical amendments. (Laws 1980, Chapter 607, Art. XIV)

PRE-73 LUMP SUM PAYMENTS

The law providing for lump sum payments to pre-1973 retirees (Laws 1979, Chapter 293) was amended retroactively to include those who had not yet attained the age of 65 by July 1, 1979. The law also provides that any excess appropriation and investment income on the appropriations shall be transferred back to the State General Fund. (Laws 1980, Chapter 607, Art. XV)

EMPLOYMENT AFTER RETIREMENT

The maximum earnings allowed for an annuitant who is re-employed by the state, before his benefits are suspended, is set automatically each year at the same level for a given age as the limitations applicable to social security recipients. (Laws 1980, Chapter 342, Sec. 3)

ANNUITY APPLICATIONS

Application for annuity can be made up to 60 days prior to the time an employee is eligible to retire by reason of both age and service requirements (Laws 1980, Chapter 607, Sec. 33)

REFUND REPAYMENTS

Repayment of refunds can be made either by lump sum or payroll deduction. If they are made by lump sum payment, no employer contributions will be collected as they would be if made by payroll deduction. (Laws 1980, Chapter 607, Sec. 34)

Employees covered by the general employee's plan who become members of the Highway Patrolmens Fund, the Teachers Retirement Association or who are excluded from coverage by action of the Board of Regents of the University of Minnesota as well as certain other employees must now wait 30 days before applying for a refund of contributions. The law also provides that they will be paid interest as provided for regular refunds. Employees who terminate state service had their waiting period reduced from 60 to 30 days. (Laws 1980, Chapter 342, Sec. 4 & 5)

MTC/TOD EMPLOYEES

Allowable service for vesting and benefit accrual purposes was amended to provide fractional service credit for permanent part time employees of the Metropolitan Transit Commission/Transit Operating Division (MTC/TOD). The additional unfunded accrued liability resulting from the consolidation of the MTC/TOD employees plan with the SER plan was established at $7,260,518 as determined by the systems actuary. The 3.8% additional employer contribution is to amortize this deficit in addition to compound interest at the rate of 6% per annum since July 1, 1978. The law also amends the liability for supplementary disability benefit coverage, retroactively corrects an omission in the 1978 law pertaining to retirement increases, and allows service credit for military service. (Laws 1980, Chapter 342, Sec. 1, 2 and 16 to 19)

Certain employees of the MTC/TOD were allowed to purchase service credit for service with a management firm hired by the MTC/TOD. The employees were required to pay 4% of the salary paid plus interest at 6%. The MTC/TOD is required to pay the difference in the actuarial cost. The additional unfunded accrued liability established by Laws 1980, Chapter 342 is increased to $7,307,545. (Laws 1980, Chapter 600, Sec. 10 and 19)

PARTIAL SERVICE CREDIT

Fifty positions within State Government are to be designated as shared positions on a trial basis. Each position will employ more than one person and each person will accrue benefits, including retirement service credit, on a prorated basis. (Laws 1980, Chapter 572)

MILITARY AFFAIRS

A special retirement plan was established for certain employees of the Department of Military Affairs, excluding the Adjutant General, who under federal law must retire at age 60. The plan provides for an unreduced normal retirement benefit at age 60 and an occupationally defined disability benefit. Both the employee and employer pay one percent higher contributions than for the General Employees plan. (Laws 1980, Chapter 607, Art. XV)

CORRECTIONAL EMPLOYEES

The statutes relating to disability benefits for the Correctional Officers Plan were amended in their entirety. The changes include a liberalization of the definition of disability, an increase in the amount of the disability payments, no minimum service requirement for a work related disability and a five year minimum service requirement for a non work related disability. (Laws 1980, Chapter 342, Sec. 6)

The conditional mandatory retirement age for correctional employees was set at age 55. Employees desiring employment beyond that age must annually request continued employment and undergo a medical examination to determine if they have the mental and physical ability to continue the duties of the position. The law also changes the eligibility requirements for employees who are hired later in life (up to age 55), expands correctional plan eligibility, and sets forth a procedure for adding classifications to covered correctional service. (Laws 1980, Chapter 600, Sec. 1-5)

UNCLASSIFIED EMPLOYEES PLAN

Upon becoming eligible to the unclassified plan, employee and employer contributions in the General Employees Plan accrued during prior service are no longer transferred to the Unclassified Employees Plan. Only those contributions made since eligibility accrue to the unclassified plan. There is also a 30 day waiting period before a former employee may apply for a refund of contributions. Lump sum repayment of refunds are allowed for general plan or unclassified plan refunds by employees of the general plan or unclassified plan. Interest at the rate of 6% per annum compounded annually must be paid at the time of the repayment. (Laws 1980, Chapter 607, Art. XIV)

PLAN ACCOUNTING

FUNDED ACCOUNTS

Separate and distinct accounts are maintained for all plans administered by the Minnesota State Retirement System. The State Employees Retirement Fund which includes the General Employees Plan, the Correctional Officer's Plan and the Military Affairs Plan is a self-sustaining fund. All benefits and payments are financed from fund income which is derived from employee and employer payroll contributions and investment earnings.

INVESTMENT ACCOUNTS

A statewide Deferred Compensation Plan available to all public employees in the State of Minnesota and an Unclassified Employee Retirement Plan are also administered by M.S.R.S. Only certain unclassified employees covered by the General Employee Plan are eligible to participate in the unclassified plan. Payroll contributions of those who elect to participate are transferred monthly from the State Employees Retirement Fund to the Unclassified Retirement Plan and the contributions, less a two percent administrative charge, are invested in shares of the Minnesota Supplemental Retirement Investment Fund. Public employees who elect to participate in the Deferred Compensation Plan specify a fixed dollar amount to be withheld from pay checks (before income tax). The withheld or deferred amount, less a two percent administrative charge, is invested in shares of the Minnesota Supplemental Retirement Investment Fund. Individual share account records are maintained in both plans.

ACTUARIAL VALUATIONS

ASSUMPTIONS

Actuarial valuations of the State Employees Retirement Fund, and the participation in the Minnesota Post Retirement Investment Fund are conducted annually to determine if the contribution rates will adequately finance the benefits provided by that particular fund. The actuarial valuations are carried out on the basis of a 5% interest rate assumption, a 3% salary scale and other assumptions deemed appropriate by the System's actuaries based upon the experience of the System. The assumptions necessary to a valuation include the rates of separation from active service because of termination with refund, retirement and mortality before and after retirement. An experience study is conducted every four years to determine if the assumptions used are valid. An experience study was performed as of June 30, 1979.

EXPERIENCE STUDY RESULTS

The actuary recommended several changes in assumed rates of termination and mortality which were adopted by the Board of Directors at their May 23, 1980 meeting. These assumption changes will be incorporated for the fiscal year ending June 30, 1980 for the first time. The change which has by far the greatest impact is the change in the mortality table used. The previous table used was the 1951 Group Annuity Mortality Table with ages set back one year for males and two years for females. Effective with the F.Y. 1980 valuation, all plans will now use the 1971 Group Annuity Mortality Table for males with female rates set back 8 years. This change also necessitated a large one-time transfer of funds to the MPRI Fund. This is for valuation purposes only, Uni-sex tables are used for computing early retirement and joint and survivors annuity benefits.

The second change is the incidence of disability. The previous rates are retained to age 40, and gradually increased so that they are 100% higher at ages 50 and thereafter.

The percentage of normal cost assigned to administrative expense for the State Employees Fund was increased from .14% to .18% of payroll.

Other important assumptions not changed because the experience study supported the ones being used are the terminations prior to retirement and the assumed rates of retirement. The investment earnings assumption of 5% and the salary scale increase assumption of 3½% are set by statute.

NORMAL COST

The entry age normal cost method of funding is required by statute. Under this method, a level contribution rate is determined, which, if contributed on behalf of all employees from date of entry into service to date of separation, will be adequate to provide the full funding of prospective benefits. Factors of great importance in such determination are the projected rate of earnings of the fund, the rates of separation from active service, salary progression scales and mortality rates. Normal cost increased in 1980 due to the change in actuarial assumptions discussed above.

Comparative normal cost figures, including administrative expenses were as follows in 1977-1980:

	State Emp. Retirement Fund	
Fiscal Year	General Plan	Correctional Plan
1977	7.23%	11.18%
1978	7.20%	11.16%
1979	6.67%	10.38%
1980	7.00%	10.82%

UNFUNDED ACCRUED LIABILITY

The unfunded accrued liability is the total liability of a fund for benefits earned in the past as well as those earnable in the future, less the assets on hand, less the present value of future employee contributions and less the present value of future employer entry age normal cost contributions. The unfunded liability of the State Employees Retirement Fund is calculated separately for the General Plan and the Correctional Plan. Comparative figures for fiscal years 1977-1980 are as follows: (in thousands)

	State Emp. Retirement Fund		
Fiscal Year	General Plan	Correctional Plan	Combined
1977	$156,063	$7,540	$163,603
1978	$178,518	$8,253	$186,771
1979	$177,954	$6,681	$184,635
1980	$191,008	$7,073	$198,081

The level dollar amount necessary to fund the combined liability on an annual basis, as determined by the actuary, is $13,082,381 or 1.84% of the General Plan payroll and 2.78% of the Correctional Plan payroll.

CURRENT SUPPORT

Employee contributions for the General Plan are 4% and for the Correctional Plan, they are 6%. Employer normal cost contributions for the General Plan are also 4%, for a total of 8% normal cost. Employer normal cost contributions for the Correctional Plan are 9% for a total of 15% normal cost. Employer contributions for amortizing the past fund deficit for the General and Correctional Plans are 2% and 5% respectively.

FUNDING RATIO

The funding ratio is determined by dividing the assets on hand by the total reserve requirement. A ratio of 100 percent indicates full funding. The funding ratios for fiscal years 1977-1980 were as follows:

Fiscal Year	Funding Ratio
1977	68.6%
1978	68.6%
1979	72.7%
1980	74.2%

In the above ratios, assets on hand include Post Retirement Fund assets as adjusted to reflect 100 percent funding of annuities and the total reserve requirement includes the actuarial present value of annuities in force.

The MSRS actuary estimates the present value of benefits earned to June 30, 1980 by presently active and retired persons in the State Employees Fund to be $653,668,405. Applicable assets on hand, including the $6,478,207 due from the MPRI Fund, amount to $569,165,868. Thus as of June 30, 1980, 87.1 percent of the liability for the benefits *earned to date* have been funded. This compares to 85.8 percent as of June 30, 1979. This is called a Plan Continuation Liability Ratio.

MINNESOTA POST RETIREMENT INVESTMENT FUND

The Minnesota Post Retirement Investment Fund (MPRIF) as provided in Laws 1980, Chapter 607, Article XIV, Section 16 is the successor to the Minnesota Adjustable Fixed Benefit Fund (MAFBF).

OWNERSHIP OF THE MPRI FUND

The Minnesota Post Retirement Investment Fund is the investment medium for the reserves set aside to pay benefits to retired public employees. An amount of money determined necessary to fully fund the retirement annuity based on an actuarially estimated life expectancy and an assumption that the monies will earn at a rate of 5%, is transferred to the MPRI Fund at time of retirement by the participating retirement plan. The public retirement funds or plans participating in the Minnesota Post Retirement Investment Fund are the following:

State Employees Retirement Fund (including correctional employees)
Highway Patrolmens Retirement Fund
Judges Retirement Fund
Legislators Retirement Plan
State Teachers Retirement Fund
Public Employees Retirement Fund (including police and fire)
Minneapolis Municipal Employees Retirement Fund

The funds or plans authorized to participate in the MPRIF own an undivided participation in all the assets of the fund. The extent of each fund or plans annual participation is determined by adding to the prior years participation all transfers of funds, interest income and adjustments. The participation shown on the actuarial and accounting balance sheets is the greater of the net assets or required reserves. Any difference between the two is explained in the footnotes to the accounting statements.

MORTALITY ADJUSTMENT

The actuarial tables used to determine amounts of money transferred to the Minnesota Post Retirement Investment Fund for a retired employee are based on a five percent interest assumption and average life expectancy. If a retired employee lives longer than expected, there is an actuarial loss; if death occurs sooner than anticipated in the tables, there is an actuarial gain.

Since the assets of the Minnesota Post Retirement Investment Fund are owned by several retirement funds, the actuarially determined reserves are adjusted annually to the actual mortality experienced during the year by each participating fund.

POST RETIREMENT FUND ASSETS

The assets of the MPRI Fund increased from $968 million at June 30, 1979 to $1,122 million at June 30, 1980. The fixed income and convertible securities are valued at amortized cost while the remaining assets are valued at cost. Up to 50% of the fund may be invested in common stock and convertible debentures.

The MPRIF assets were invested in the type of securities indicated at June 30:

	1980	**1979**
Common Stock	38.56%	43.44%
Fixed Income Securities	46.44%	46.25%
Convertible Securities	.10%	.12%
U.S. Govt. Short Term Securities	6.98%	3.90%
Commercial Paper	7.92%	6.29%
Total	100.00%	100.00%

MPRI FUND INCOME

The income to the MPRI Fund includes dividends, interest, accruals and realized capital gains or losses on equities offset by a portion of the balance of the Deferred Yield Adjustment Account.

The fiscal 1979 income, restated to reflect 1980 law changes, was $66,363,368 compared to $93,203,337 for fiscal 1980. In addition, the State Board of Investment made a one time adjustment in the amount of $2,405,263 which was prior years income which had not been distributed due to the previous method of calculating income. This was to conform with Generally Accepted Accounting Principles. The income distributed to the participating funds at

June 30 for fiscal 1979, not restated to reflect 1980 law changes, was $52,991,313 compared to fiscal 1980 income, including the adjustment, of $64,395,571. The remaining $31,213,029 of fiscal 1980 income was undistributed but will be distributed January 1, 1981 to provide a benefit increase. Of the income distributed for fiscal 1980, $51,585,964 was the 5% income on required reserves. The remaining $12,809,607, which includes the adjustment, plus the $558,776 offset for the Deferred Yield Adjustment Account reduced the deficiency.

That portion of the MPRI Fund income which was distributed to the State Employees Fund for F.Y. 1980 and 1979 was as follows:

	Income
Fiscal 1980 Income	
Distributed To:	
Required Reserves	$ 9,062,607
Deficiency	2,442,283
Undistributed	5,546,186
Total	$17,051,076
Fiscal 1979 Income	$ 9,576,780

BENEFIT ADJUSTMENTS

An increase in benefit payments is possible on January 1 following the close of the fiscal year for those participants whose benefit began to accrue at least one year prior to the close of the fiscal year. The increase is dependent upon the income of the fund.

If the fund earned more than the 5% on the required reserves, then any excess may be used for increased benefits. However, if there is a deficiency in the fund, then 25% of the excess income is withheld to gradually eliminate the deficiency. The remaining 75% of the excess income increased by 2½% is then available for increased benefits on January 1 following the close of the fiscal year. The resulting dollar amount is then divided by the total present value of benefits of all participating funds or plans for those eligible participants to determine a percentage amount to increase benefits.

There was income in excess of the 5% required for the fiscal year ended June 30, 1980 so those participants whose benefit began to accrue prior to July 1, 1979 will receive a 3.209% increase in benefits beginning January 1, 1981.

MPRI FUND DEFICIENCY

If the required reserves, as determined by the actuary, as of June 30 is greater than the book value of the assets of the fund, a deficiency exists. If the income to the fund exceeds the 5% required, then 25% of the excess is used to gradually eliminate this deficiency. Such was the case this past fiscal year.

The actuarially determined reserve requirement for annuities in force on June 30, 1980 for the State Employees Retirement Fund exceeded its share of the MPRI Fund assets as of June 30:

	Reserves
Reserve Requirement	$205,104,321
MPRIF Participation	$198,626,114
Deficiency	$ 6,478,207

INVESTMENTS OTHER THAN THE MPRI FUND

DISTRIBUTION OF INVESTMENTS

The law provides that the aggregate of common and preferred stock investments may not exceed 50 percent of the total assets of a fund at any time. Stocks constituted the following percentages of *invested* assets in the last four fiscal years (invested assets include short terms at cost, fixed income debt securities at amortized cost and stocks at original cost):

	1980	1979	1978	1977
Percentage Invested in Stocks	37.88%	45.00%	47.24%	49.02%

INVESTMENT INCOME

Income on investments is accounted for on an accrual basis and includes interest on debt securities (adjusted for amortization of premiums and accumulation of discounts), interest on short term investments, dividends on corporate stock, premiums on bonds called and the sum of these adjusted for amortization of the deferred yield adjustment account. The deferred yield adjustment account represents the capitalized losses on bond sales to be written off against income over the remaining life of the bonds sold. Profit on sales of stock is excluded from net investment income in order to provide stability in comparative rates of return.

RETURN ON INVESTMENTS

In Minnesota, insurance companies calculate rate of return using the following formula:

$$\frac{2I}{A+B-I}$$

where, I = Net Investment Income
A = Sum of Invested Assets, Cash, Accrued Interest and Dividends at the beginning of the year
B = Same as A except sum is as of the end of year

Rates of return in the last four years, as shown below, were calculated using the above formula, modified to include the Deferred Yield Adjustment Account and the Recognized Unrealized Appreciation Account in beginning and ending assets. (The Recognized Unrealized Appreciation Account and concurrent adjustments to income was discontinued after fiscal 1978)

	1980	**1979**	**1978**	**1977**
Rate of Return	7.76%	6.86%	6.01%	5.40%

INVESTMENT OF FUNDS

The State Board of Investment invests the monies of the System which are certified to them as available for investment by MSRS. Funds which are not required for immediate use are invested so as to maximize the investment earnings of the respective retirement funds. Investment income accounts for a significant part of the funding of retirement benefits as indicated below. The income percentages do not include MPRI fund income, miscellaneous items and one time transfer of assets as indicated on the accounting statements.

State Employees Retirement Fund:	**Employee Contributions**	**Employer Contributions**	**Investment Income**
F.Y. 1978	**31.2%**	**47.7%**	**21.1%**
1979	**29.3%**	**46.5%**	**24.2%**
1980	**26.5%**	**42.1%**	**31.4%**

REVENUES

Employee and employer contributions for the State Employees Retirement Fund were $68,638,079 in fiscal 1980 compared to $62,097,076 in 1979. Investment income on the investment portfolio also increased to $31,317,649 in fiscal 1980 as compared to $19,759,354 in fiscal 1979. There was also a one-time revenue item for the transfer of assets from the Metropolitan Transit Commission/Transit Operating Division (MTC/TOD) of $21,242,839 in fiscal 1979. The increased contributions were due to increased salaries and the addition of approximately 1600 new employees.

The Metropolitan Transit Commission/Transit Operating Division employee's (Bus Drivers) retirement fund was transferred to MSRS on July 1, 1978. Transferred with the liabilities was an additional unfunded deficit of $7,260,518. Part of the agreement was that the MTC transfer the pension liabilities of the employees on the same funded basis as the rest of the state employees in the General plan. The statutes require the MTC/TOD to contribute an extra 3.8% of salary to amortize the additional deficit. This unfunded deficit was increased by Laws 1980, Chapter 342 to $7,307,545. The law also established that the liability plus interest at the rate of 6% per annum on the average unpaid balance was to be amortized by the 3.8% additional contribution. The balance due at June 30, 1980 is $5,125,295.88. If the MTC/TOD payroll increases at the statutory assumed rate of 3½% per year, the remaining amount will be amortized in about four years.

Employee and employer contributions are based on total payrolls.

EXPENDITURES

Benefit payments from the fund for F.Y. 79 and F.Y. 80 were as shown:

	F.Y. 1979	**F.Y. 1980**
Service Retirement Annuities	$19,114,814	$20,440,426
Disability Benefits	1,201,406	1,286,141
"Old Law" Survivor Benefits	28,434	26,884
Refundments	6,062,675	7,163,065

Supplemental benefits amounting to $77,354 in fiscal 1979 and $68,962 in fiscal 1980 were paid to certain Pre 1963 retirees from the State General Fund. Also, employees who had retired before the "5-high year" law received a lump sum payment in fiscal 1980 totaling $1,330,155. Such payments were in addition to the amounts shown above.

Operating expenses were $1,298,201 in fiscal 1979 compared to $1,317,017 in fiscal 1980, an increase of $18,816 or 1.5 percent. Data processing charges were $453,966 in fiscal 1979 compared to $373,432 in fiscal 1980 for a decrease of $80,534 or 17.7 percent. This is due to a change in methodology implemented in fiscal 1979, resulting in fewer Information Systems Bureau (ISB) staff working on an MSRS comprehensive data base project during fiscal 1980. Salary and fringe benefits increased 14 percent or $85,845, from $615,458 in fiscal 1979 to $701,303 in fiscal 1980. The majority of the increase resulted from the addition of one new position and the filling of vacant positions. The remaining categories of operating expenses increased by $13,505, from $228,777 in fiscal 1979 to $242,282 in fiscal 1980. Of the total operating expenses, $253,577.74 in fiscal 1980 and $256,889.08 in fiscal 1979 was charged to other plans administered by MSRS.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

SECTION II

A HALF CENTURY OF OPERATION
and
A HALF BILLION DOLLARS OF GROWTH

A MILESTONE IN THE SYSTEMS HISTORY

FIFTIETH ANNIVERSARY REPORT
JULY 1, 1929
to
JUNE 30, 1980

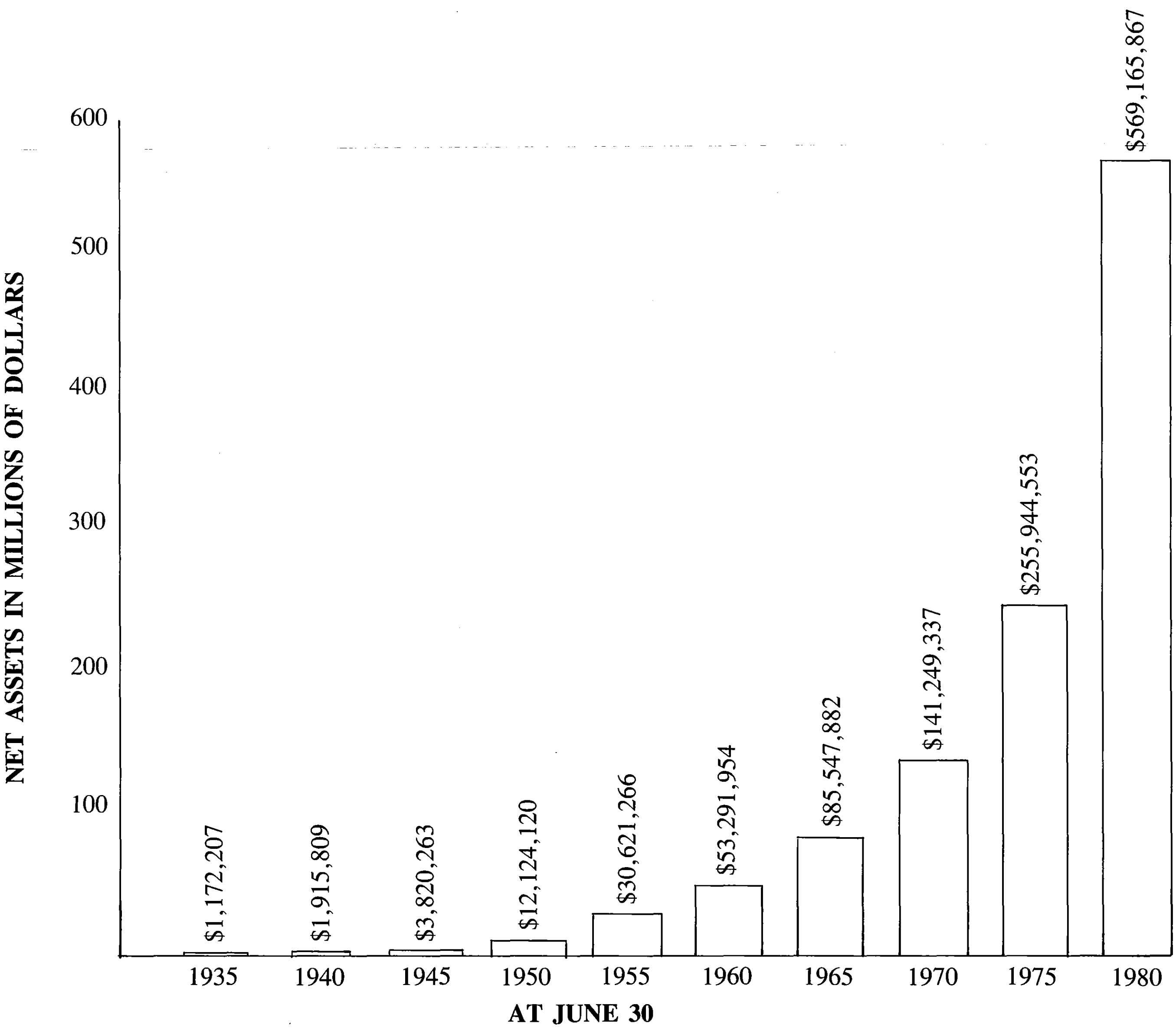
MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
FIFTIETH ANNIVERSARY REPORT
July 1, 1929 to June 30, 1980

A half century and a half billion dollars! June 30, 1980 marks the end of the 50th year of operation of the Minnesota State Retirement System with net assets in excess of $569 million and a total membership, including annuitants of over 56,000. Although the System has had several funds and plans added within the last decade, this 50 year report depicts only the State Employees Retirement Fund. We have highlighted the changes that have taken place over the past 50 years in the fund and hope you find it interesting and informative.

The financial and statistical information is shown graphically over the 50 year period at five year intervals. We think it shows the dramatic increases that have taken place, especially in more recent years, and an insight into the future.

NET ASSETS

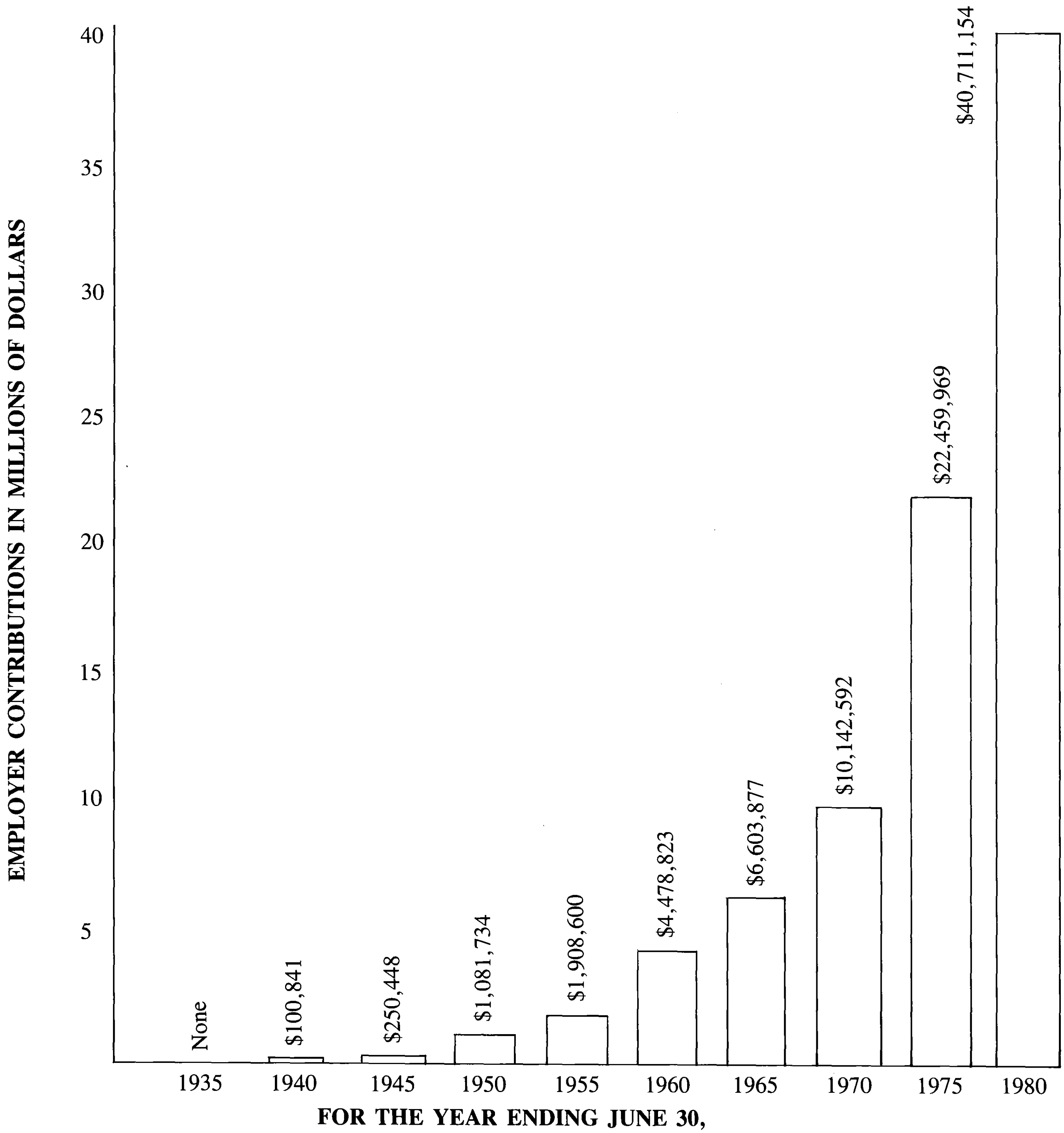
This graph illustrates the cumulative net assets of the fund at five year intervals. It is interesting to note that total receipts to the fund over the past 50 years exceeded $834 million while benefits paid, including refund of contributions and interest on refunds totaled $254 million. This accumulation of assets is needed to secure the payment of future benefit payments which are already earned and promised.



EMPLOYER CONTRIBUTIONS

The State first started paying into the Retirement Fund in 1939, and until July, 1957 the employer contribution was a percentage of annuities paid or of employee contributions, plus a small property tax mill levy. Starting with 1958, the State paid 5% of covered salary, phasing down to 4½% in 1969 and 4% in 1970. Since July, 1973 the State contribution for the General Employees Plan has been a matching 4% plus another 2% to retire past Plan liabilities. July, 1973 was also the beginning of the Correctional Employees Plan. For this plan, the State pays 9% towards normal cost plus an additional 5% to retire past Plan liabilities.

The graph below illustrates the annual employer contributions for the years indicated.

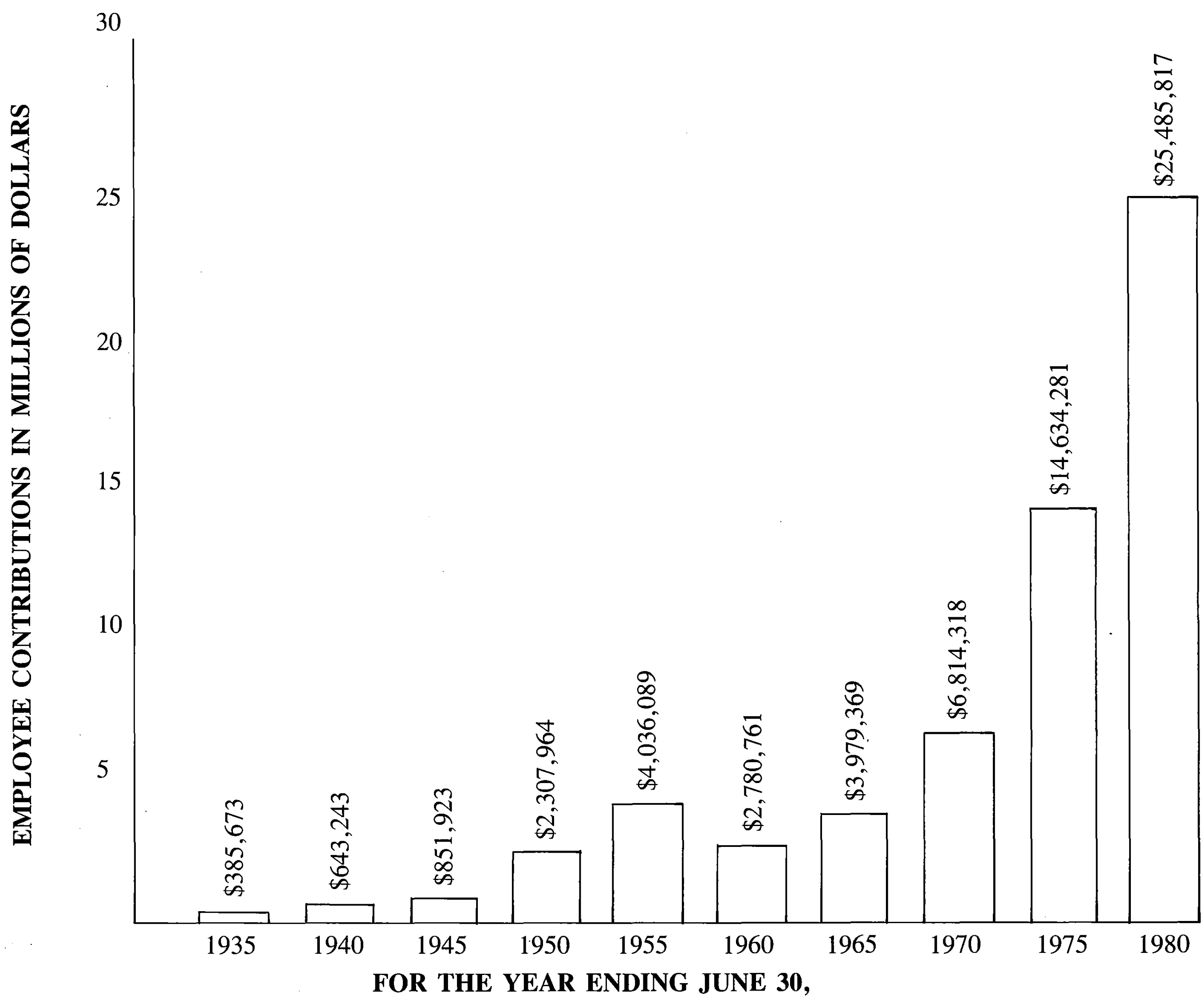


MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
FIFTIETH ANNIVERSARY REPORT
July 1, 1929 to June 30, 1980

EMPLOYEE CONTRIBUTIONS

Until July, 1939, employees had 3½% of total salary deducted for retirement. From 1939 until 1945, the employee's retirement deduction was between 3½% and 6% of salary, depending on their age when State service started, subject to a $300 per month salary ceiling. From 1945 to 1949 the contribution rate was between 5% and 6%, subject to the same criteria as before. From 1949 to 1951, the percentage and age requirement remained the same but the salary ceiling was raised to $400 per month. The salary ceiling was raised to $600 per month in 1965 until 1967 when it was eliminated. From 1951 to 1958, when state employees began coverage under social security, all employees contributed at the rate of 6%. After social security coverage became effective, the contribution rate was reduced to 3% where it remained until 1973 when it was changed to 4% which is the same rate paid today. Those employees covered by the Correctional Plan, which began in 1973, pay 6%.

This graph shows the employee contributions for the years indicated. It is especially interesting to note the sharp drop after social security coverage became effective.

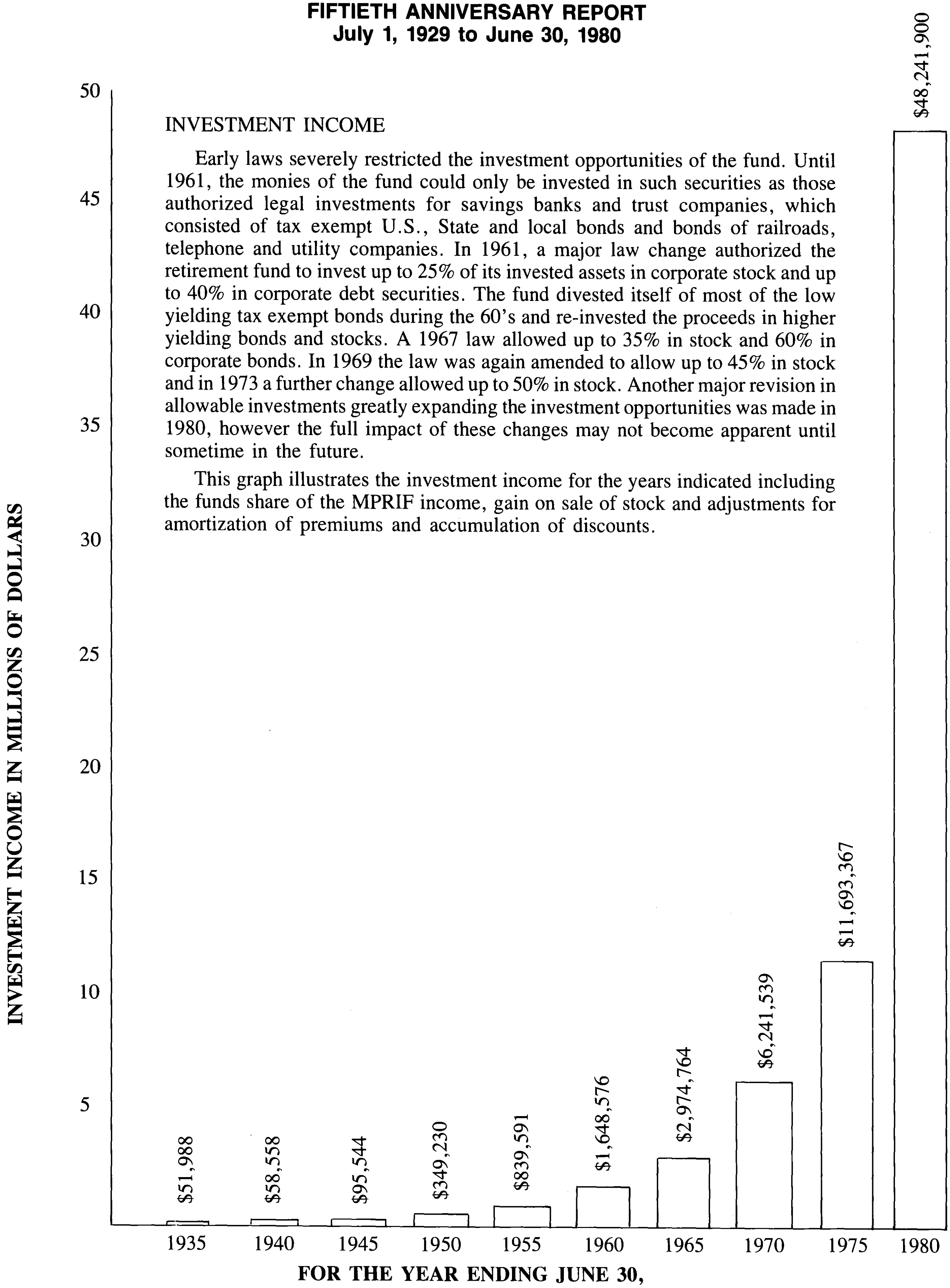


MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
FIFTIETH ANNIVERSARY REPORT
July 1, 1929 to June 30, 1980

INVESTMENT INCOME

Early laws severely restricted the investment opportunities of the fund. Until 1961, the monies of the fund could only be invested in such securities as those authorized legal investments for savings banks and trust companies, which consisted of tax exempt U.S., State and local bonds and bonds of railroads, telephone and utility companies. In 1961, a major law change authorized the retirement fund to invest up to 25% of its invested assets in corporate stock and up to 40% in corporate debt securities. The fund divested itself of most of the low yielding tax exempt bonds during the 60's and re-invested the proceeds in higher yielding bonds and stocks. A 1967 law allowed up to 35% in stock and 60% in corporate bonds. In 1969 the law was again amended to allow up to 45% in stock and in 1973 a further change allowed up to 50% in stock. Another major revision in allowable investments greatly expanding the investment opportunities was made in 1980, however the full impact of these changes may not become apparent until sometime in the future.

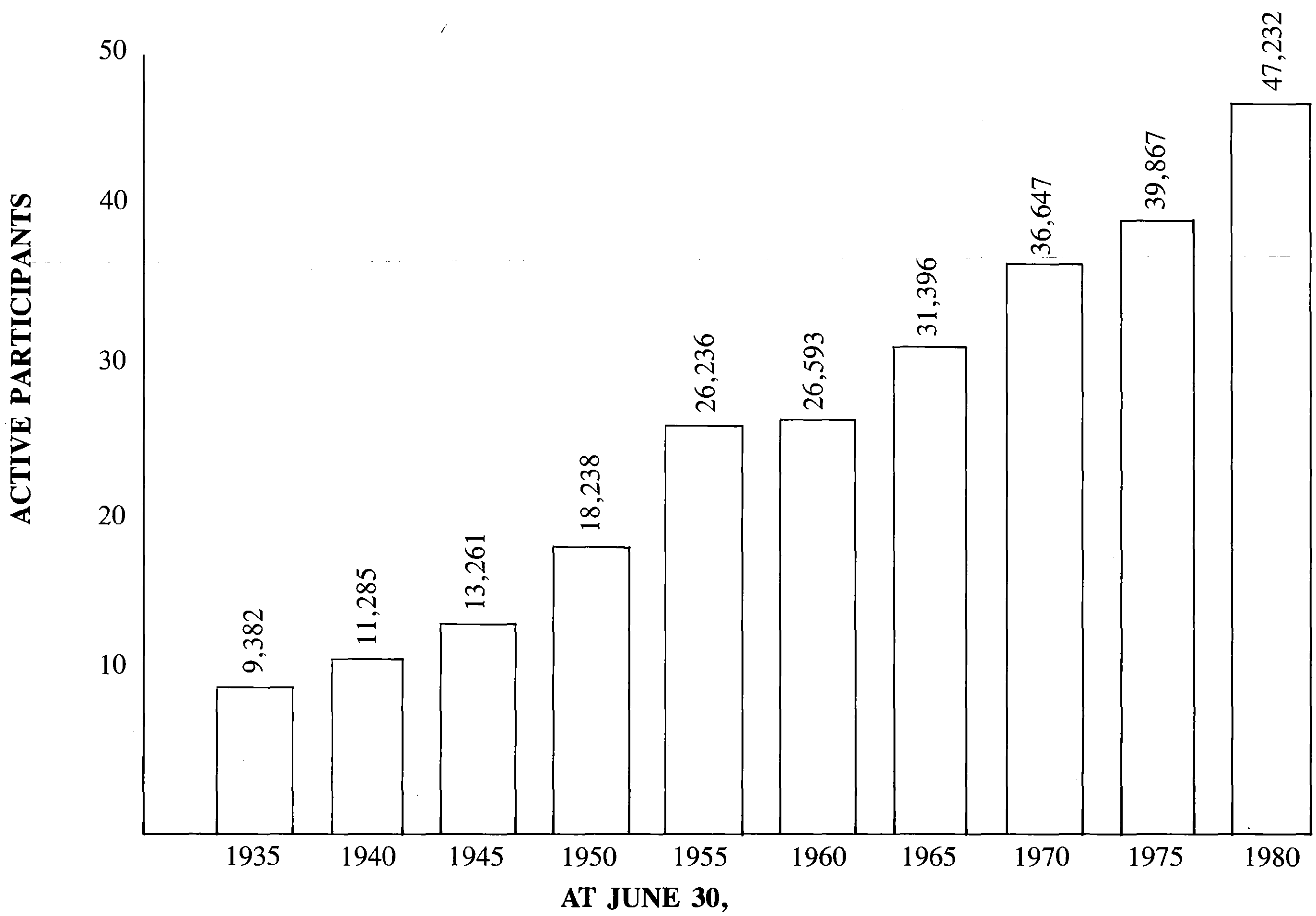
This graph illustrates the investment income for the years indicated including the funds share of the MPRIF income, gain on sale of stock and adjustments for amortization of premiums and accumulation of discounts.



MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
FIFTIETH ANNIVERSARY REPORT
July 1, 1929 to June 30, 1980

ACTIVE EMPLOYEES

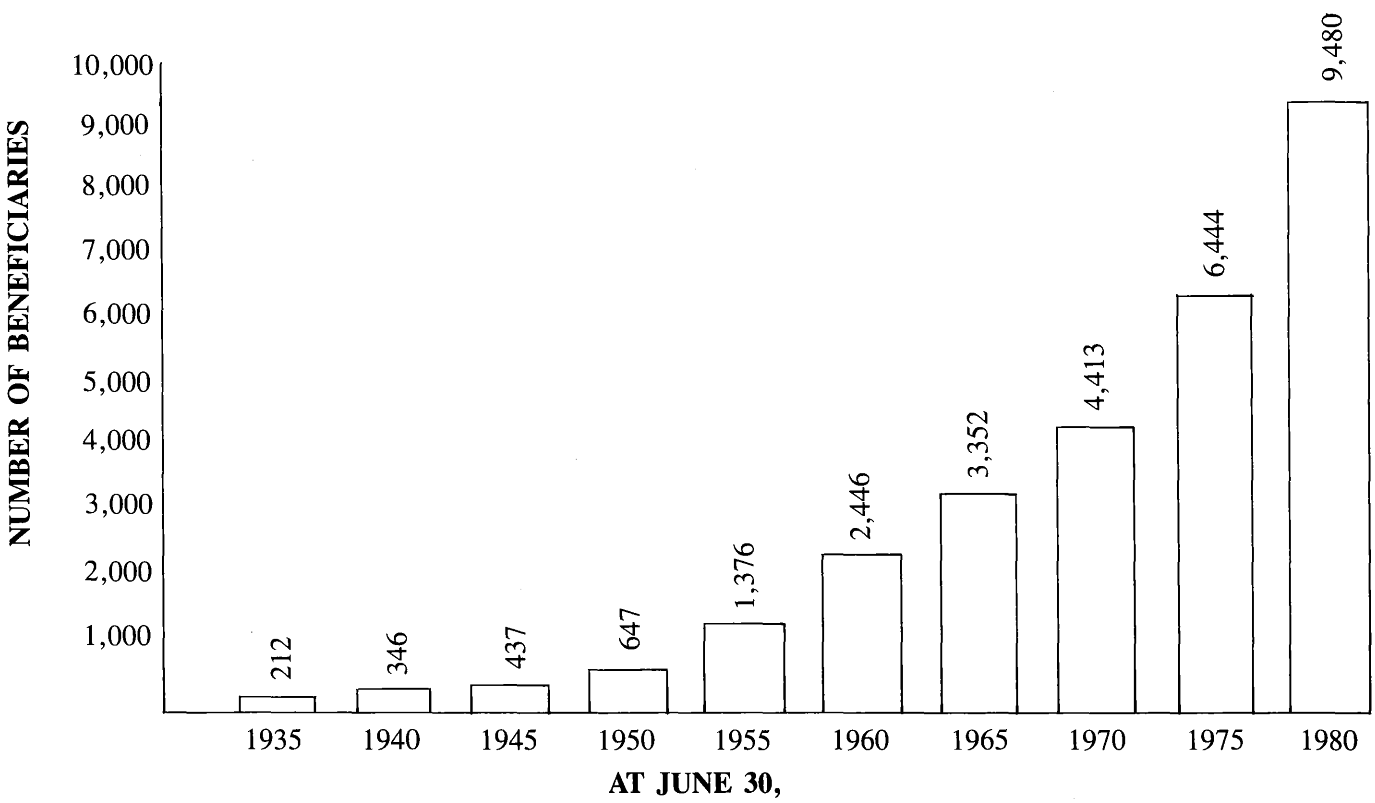
Membership in the System was voluntary at the time of its inception with only new employees being required to join until 1941, at which time membership became mandatory for all employees. The graph below illustrates the growth of the System, and to some extent, the growth of State government. During the 1950's the number of active employees remained virtually the same as government run programs stabilized. Since 1960, government at the National level has instituted new programs and mandates which have filtered down to the State and local levels of government. Those new programs and mandates could account for a large part of the growth in State government since that time.



NUMBER OF BENEFICIARIES

After the first five years of operation, the number of annuitants was equal to about 2¼% of the actives. After fifty years of operations, the number of annuitants has grown to just over 20% of the actives. The original laws required an employee to work until age 65 and earn a minimum of 20 years service credit to draw a benefit. With 35 years of service, an employee could retire before age 65. Under current law provision, an employee age 65 or over can retire with as little as one year of service credit under the provision of the proportional annuity laws or with as little as one months service credit under the provision of the combined service annuity laws. These two provisions, as well as some other provisions, have had a major impact on the number of annuitants receiving a benefit.

The graph below depicts the number of annuitants, including the Correctional officers, and disabilitants receiving a benefit as of the end of the year indicated.



MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
FIFTIETH ANNIVERSARY REPORT
July 1, 1929 to June 30, 1980

RETIREMENT BENEFITS

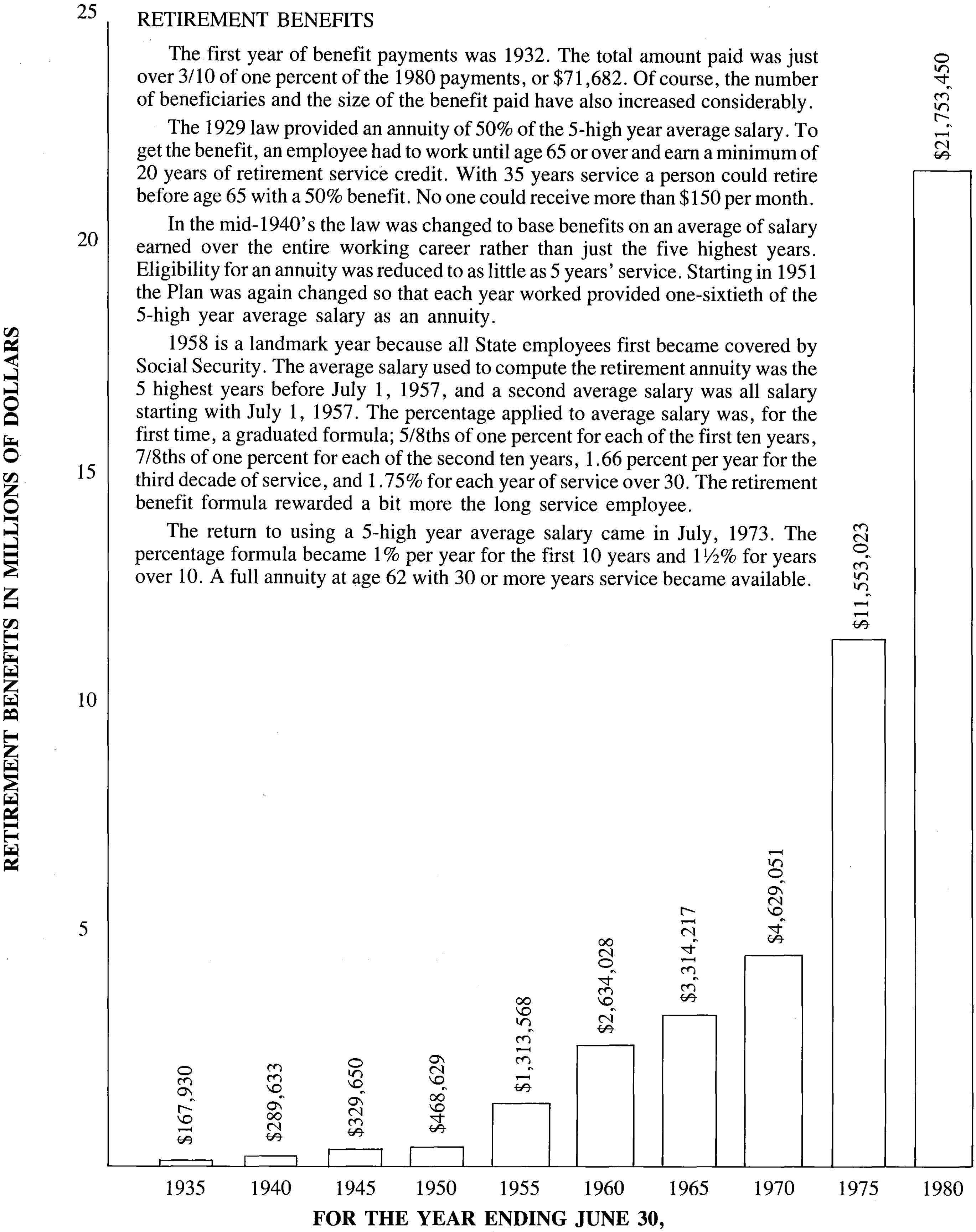
The first year of benefit payments was 1932. The total amount paid was just over 3/10 of one percent of the 1980 payments, or $71,682. Of course, the number of beneficiaries and the size of the benefit paid have also increased considerably.

The 1929 law provided an annuity of 50% of the 5-high year average salary. To get the benefit, an employee had to work until age 65 or over and earn a minimum of 20 years of retirement service credit. With 35 years service a person could retire before age 65 with a 50% benefit. No one could receive more than $150 per month.

In the mid-1940's the law was changed to base benefits on an average of salary earned over the entire working career rather than just the five highest years. Eligibility for an annuity was reduced to as little as 5 years' service. Starting in 1951 the Plan was again changed so that each year worked provided one-sixtieth of the 5-high year average salary as an annuity.

1958 is a landmark year because all State employees first became covered by Social Security. The average salary used to compute the retirement annuity was the 5 highest years before July 1, 1957, and a second average salary was all salary starting with July 1, 1957. The percentage applied to average salary was, for the first time, a graduated formula; 5/8ths of one percent for each of the first ten years, 7/8ths of one percent for each of the second ten years, 1.66 percent per year for the third decade of service, and 1.75% for each year of service over 30. The retirement benefit formula rewarded a bit more the long service employee.

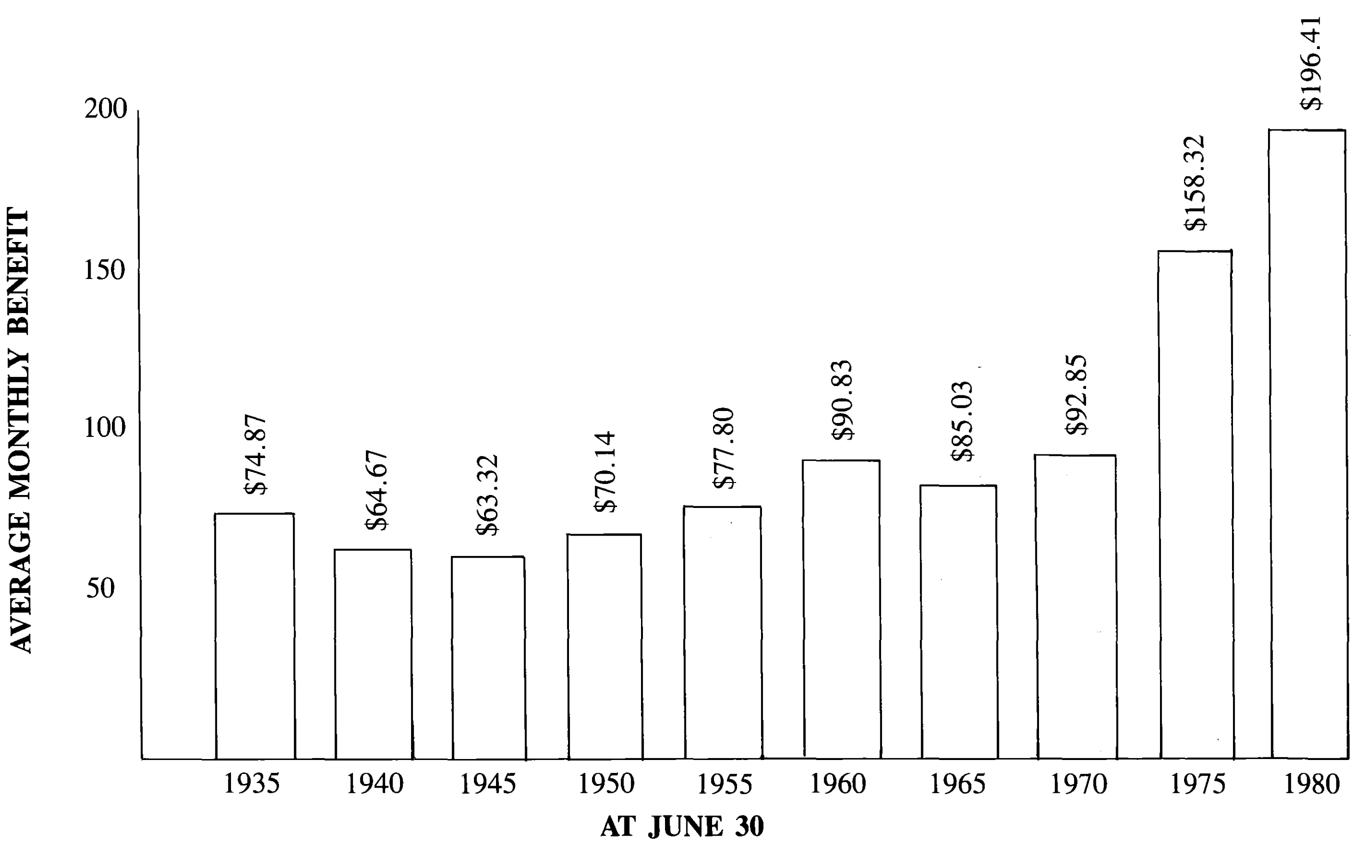
The return to using a 5-high year average salary came in July, 1973. The percentage formula became 1% per year for the first 10 years and 1½% for years over 10. A full annuity at age 62 with 30 or more years service became available.



AVERAGE MONTHLY BENEFIT

At June 30, 1932, the first year benefits were paid, there were 102 annuitants receiving an average benefit of $77.00 per month. The lowest amount was $33.33 and the highest was $150.00, the statutorily imposed maximum. During the depression, the maximum benefit was reduced to $100 and a law was passed to allow the Board of Trustees to proportionately reduce annuities if employee deductions did not exceed the benefits paid. At June 30, 1980 there were 9,480 annuitants receiving an average benefit of $196.41. The benefits ranged from $1.68 a month for a combined service annuitant with two months service credit to $1,500.47 for an annuitant with 36 years and 3 months service credit. The advent of the combined service annuity, which allows a benefit with as little as one months service credit, and the proportional annuity, which allows a benefit with as little as one years service credit, have had a very great impact on holding down the average monthly annuity. However, they have also provided a monthly benefit to many that would have otherwise been ineligible for any benefit.

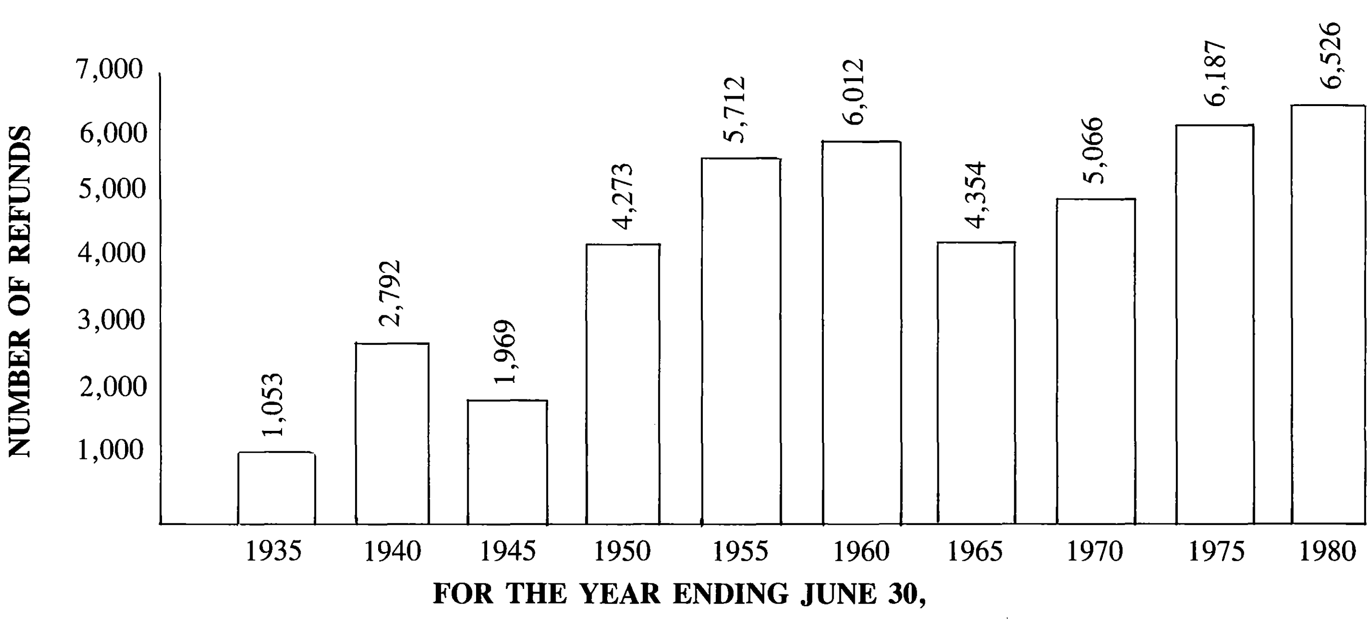
The graph below illustrates the impact that the various laws and formulas, as described on this page and the preceding page, have had on annuity payments. The average benefit will continue to rise, but not nearly in proportion to the gross annuity payments or number of annuitants.



NUMBER OF REFUNDED ACCOUNTS

Individuals taking refunds have, historically, on the average, less than three years service credit. The number of refunds taken, as depicted on the graph below, has no apparent relationship to the number of active employees. However, there does appear to be a strong correlation between the number of refunds taken, periods of military buildup and the economy.

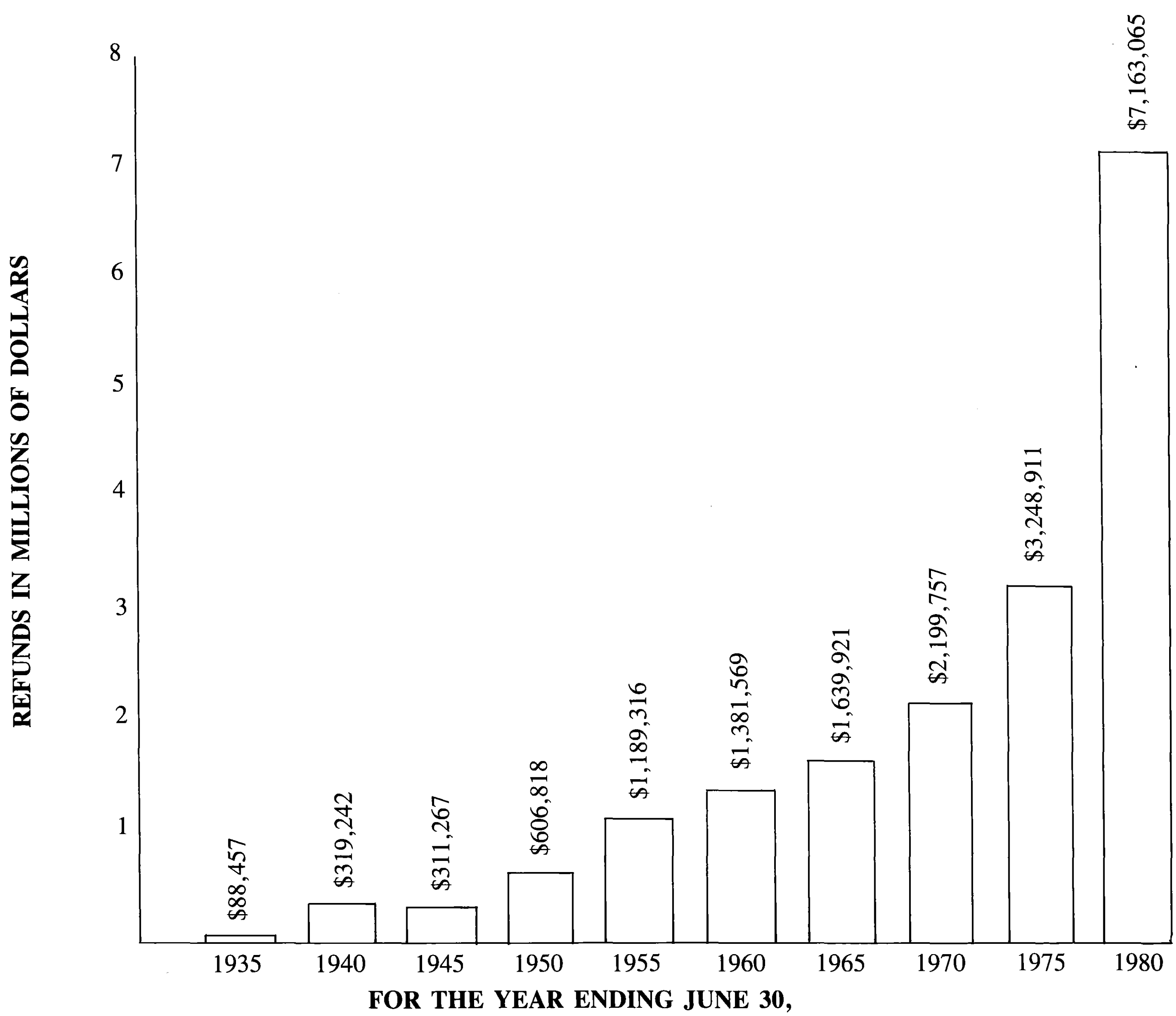
During the depression era and until 1938, there was an average of only 1,065 refunds per year. Just prior to World War II, during the military buildup in 1939 and 40, there were 5,443 refunds. During the war from 1941 to 1945 there was an average of 1,851 refunds taken per year. The average during the years 1946 thru 1948 was 4,913 per year. A decline in the number began again in 1949 and lasted through 1951 with the average down to 4,337. As the economy and job opportunities got better and the Korean conflict wound down, the average number of refunds grew to 6,054 from 1952 to 1954. A long era of declining refunds started in 1955 and, except for 1960, lasted until 1964 when there were only 3,809 refunds. During that period, the average number of refunds in a year was 4,852. The average number of refunds in a year grew to 5,398 from 1965 through 1968. The number of refunds taken since 1969 have fluctuated very little with an average of 6,157 in the past twelve years. The average for the last thee years has moved up to 6,299.



CONTRIBUTION REFUNDS

The graph below illustrates the dollar volume of refunds in the years indicated. Although the graph shows an ever increasing amount refunded, with the exception of 1945, the amount refunded varied considerably over the 50 year period, just as did the number of refunds taken. However, the variance was tempered by the average amount refunded per participant. It is interesting to note that the average refund per participant has an inverse relationship to the number of refunds taken. This can be explained by the fact that there will always be some refunds taken, but as the number of refunds increase, it is the younger participants with fewer years of service that make up the increased numbers, thus the lower average refund.

The first year interest was paid on refunds was 1950. At that time, interest was computed at 2% compounded annually. Currently, interest is paid at 3½% compounded annually on contributions taken after the third year of service. Interest paid is included on the graph and in 1950, it amounted to 1.9% of the total refunded versus 3.7% of the total refunded in 1980.



MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

FINANCIAL SECTION
for the
FISCAL YEAR ENDED JUNE 30, 1980

SECTION III

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

Veterans Service Building, 1st Floor West Wing
St. Paul, Minnesota 55155

ELDON STOEHR
Legislative Auditor

(612) 296-4708

Francis D. Hage, Chairman
Board of Directors
Minnesota State Retirement System

and

Paul L. Groschen, Executive Director
Minnesota State Retirement System

We have examined the Accounting Balance Sheet of the State Employees Retirement Fund as of June 30, 1980 and 1979, and the related Statements of Revenues and Expenditures for the fiscal years then ended and the Statement of Changes in Reserve Accounts for the fiscal year ended June 30, 1980, all of which are presented in Section III of this report. We have also examined the Chapter 356 Balance Sheet and the Determination of Accrued Liability and Unfunded Accrued Liability as of June 30, 1980 and the related Analysis of Income and Deductions From Income and Effect on the Unfunded Accrued Liability for the fiscal year then ended, all of which are presented in Section V of this report. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The reserves required for the fund, totalling $767,247,161 and $675,977,399 at June 30, 1980 and 1979, respectively, are presented in accordance with reports certified by the consulting actuary of the system.

In our opinion, the aforementioned financial statements presented in Section III fairly present the financial position of the State Employees Retirement Fund as of June 30, 1980 and 1979, and the results of operations for the fiscal years then ended and the changes in its reserve accounts for the fiscal year ended June 30, 1980, in conformity with generally accepted accounting principles (GAAP) applied on a consistent basis. In addition, relying on the certification from the consulting actuary as to the required reserves, the aforementioned financial statements in Section V fairly present the financial position of the State Employees Retirement Fund as of June 30, 1980 and the results of operations for the fiscal year then ended in accordance with Minn. Stat. Section 356.20 applied on a consistent basis.

The Schedule of Operating Expenses and the Statement of Changes in Investments for the fiscal years ended June 30, 1980 and 1979, are presented for supplementary analysis purposes and are not necessary for the fair presentation of the financial statements of the State Employees Retirement Fund in conformity with GAAP. These schedules have been subjected to the tests and other audit procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the respective fund financial statements taken as a whole.

Eldon Stoehr

Eldon Stoehr
Legislative Auditor

March 2, 1981

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND (1)
ACCOUNTING BALANCE SHEET
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

ASSETS	1980	1979
Cash in State Treasury	$ (3,586.40)	$ 24,229.06
Cash in Bank (Imprest Cash)	200.00	200.00
Short Term Investments (At Cost) (2)	61,820,857.78	24,296,275.28
Accounts Receivable:		
a) Accrued Employee Contributions	854,747.34	620,430.63
b) Accrued Employer Contributions	1,357,145.38	991,202.22
c) Employee Buybacks	210,612.91	201,216.74
d) Due from Other Plans	56,894.94	55,549.87
e) Due from the MPRI Fund	239.20	0.00
f) Other	2,526.40	1,760.07
Accrued Interest on Investments	4,296,131.69	3,011,297.59
Dividends Declared and Payable, Not Yet Received	799,008.24	676,931.82
Investment in Debt Securities at Amortized Cost (2)	144,824,652.50	123,425,160.50
Investment in G.N.M.A.'s at Amortized Cost (2)	20,936,277.50	19,116,110.32
Investment in Equities at Cost (2)	139,620,478.79	136,479,812.59
Equipment at Depreciated Cost	30,954.62	26,591.81
Deferred Yield Adjustment Account	3,527,951.07	3,949,077.96
Participation in the MPRI Fund (3)	205,104,321.00	179,101,216.00
Total Assets	$583,439,412.96	$491,977,062.46

LIABILITIES AND RESERVES	1980	1979
Liabilities		
Accounts Payable:		
a) Security Purchases	$ 3,224,061.71	$ 0.00
b) Annuities	1,805.40	846.47
c) Annuitant Deposits	6,387.28	5,809.92
d) Accrued Expenses	96,087.81	64,372.36
e) Overpaid Dividends	1,785.00	1,785.00
f) Transfer to Unclassified Retirement	162,192.16	190,075.35
g) Due MPRI Fund (4)	10,771,901.20	364,326.56
Suspense Item: Unredeemed 6 Year Old Warrants	9,325.19	7,617.91
Total Liabilities	$ 14,273,545.75	$ 634,833.57
Reserves		
Minnesota Post Retirement Investment Fund Reserve (3)	$205,104,321.00	$179,101,216.00
Survivor Benefit Reserve	228,240.00	213,773.00
Employee Contribution Reserve	136,370,227.75	121,815,770.69
State Contribution Reserve	227,463,078.46	190,211,469.20
Total Reserves	$569,165,867.21	$491,342,228.89
Total Liabilities and Reserves	$583,439,412.96	$491,977,062.46

The footnotes are an integral part of the financial statements.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
STATEMENT OF REVENUE AND EXPENDITURES
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

REVENUES	**1980**	**1979**
From Employees:		
Employee Contributions	$ 25,612,675.32	$ 23,337,772.38
Employee Accrued Contributions Receivable	854,747.34	620,430.63
Employee Contributions, Accounts Receivable	53,152.60	55,739.49
From Employers:		
Employer Contributions	26,148,884.62	23,770,198.92
Employer Additional Contributions	14,611,474.03	13,321,732.19
Employer Accrued Contributions Receivable	1,357,145.38	991,202.22
From Investments:		
Interest on Short Term, Mortgages and Debt Securities	17,481,714.08	12,043,409.04
Dividends on Corporate Stock	8,232,253.01	6,924,568.56
Gain on Sale of Stock	5,452,425.17	635,789.62
Interest on Back Payments by Employees	151,256.78	155,586.72
From MPRI Fund Participation:		
Participation in MPRI Fund Income (5)	11,504,890.13	9,576,780.09
Other Revenues:		
Miscellaneous	11,155.81	2,864.32
General Fund Appropriations (6)	2,630,745.00	0.00
Total Revenues	$114,102,519.27	$ 91,436,074.18

EXPENDITURES		
Benefits:		
Service Retirement Annuities (7)	$ 20,440,425.86	$ 19,114,813.53
Disability Retirement Annuities	1,286,140.58	1,201,406.06
Survivor Benefits (spouses)	26,883.78	28,433.58
Lump Sum Annuity Payments (8)	1,330,155.00	0.00
Refundments (Employee Contributions):		
Left Service	6,409,056.37	5,392,655.05
Employee Deaths	375,953.92	280,769.88
Annuitant Deposits	75,375.47	35,298.09
Erroneous Deductions	36,895.86	155,348.60
Interest on Refunds	265,783.12	198,602.99
Unclassified Employee Retirement:		
Transfer of Employee Contributions	1,034,758.04	785,286.98
Transfer of Employer Contributions	1,406,350.16	1,116,189.50
Transfer of Interest	109,470.08	35,798.04
Operating Expenses:		
Administrative Expenses (Exhibit A)	1,063,439.61	1,041,312.08
Loss on Disposition of Assets	2,186.67	0.00
Write off uncollectible accounts	65.29	0.00
Interest Expense on Mortality Adjustment	17,354.83	0.00
Miscellaneous	524.50	0.00
Total Expenditures	$ 33,880,819.14	$ 29,385,914.38
Excess of Revenues Over Expenditures	$ 80,221,700.13	$ 62,050,159.80
Income Adjustment (9)	(2,398,061.81)	3,318.15
NET DISTRIBUTION TO RESERVES (11)	$ 77,823,638.32	$ 62,053,477.95

The footnotes are an integral part of the financial statements.

EXHIBIT A—OPERATING EXPENSES
FISCAL YEAR ENDED JUNE 30, 1980 AND 1979

	1980	1979
Salaries	$ 597,236.50	$ 525,203.50
Employer MSRS Contributions	34,938.02	31,101.76
Employer FICA Contributions	34,105.87	28,861.31
Employer Insurance Contributions	35,022.33	30,290.96
Rents and Leases	35,943.82	30,951.00
Repairs	2,009.15	1,344.96
Printing, Binding, and Duplicating	23,843.86	18,334.35
Medical Expense—Disability Exams	16,928.30	22,999.40
Actuarial Service	59,625.00	31,748.00
Other Purchased Services	33,655.43	58,929.26
Data Processing	373,432.48	453,966.26
Postage, Inserting and Freight	31,860.92	28,010.89
Travel, Dept. Head, and Board Member Expense	9,300.11	9,391.87
Telephone	5,215.58	5,230.77
Utility Service	4,531.22	4,373.82
Subscriptions and Memberships	887.65	995.72
Office Supplies	9,325.22	4,438.42
Depreciation on Equipment	3,045.07	2,423.39
Investment Expense	1,363.11	2,646.04
Special Asst. Atty. General	4,369.71	6,607.48
Tuition	378.00	352.00
Total Operating Expenses	$1,317,017.35	$1,298,201.16
Expense attributable to other plans:		
Highway Patrolmens Fund	$ 32,290.01	$ 29,624.29
Judges Retirement Fund	11,386.58	15,437.06
Legislators Retirement	9,052.30	10,000.00
Elected Officials	409.80	488.52
Deferred Compensation	159,755.41	166,734.09
Unclassified Employees	40,683.64	34,605.12
Total distribution to other plans	$ 253,577.74	$ 256,889.08
Balance attributable to the SER Fund	$1,063,439.61	$1,041,312.08

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
CHANGES IN RESERVE ACCOUNTS
FISCAL YEAR ENDED JUNE 30, 1980

	Total Reserves	Reserve for Employee Contributions	Reserve for Survivor Benefits	Reserve for Participation in MPRI Fund	Reserve for State Contributions
Balances at June 30, 1979	$482,465,960.92	$121,815,770.69	$213,773.00	$170,224,948.03	$190,211,469.20
Prior Year adjustment (10)	8,876,267.97			8,876,267.97	
Reserves increased by:					
Employee Contributions	26,520,575.26	26,520,575.26			
Employer Contributions	42,117,504.03				42,117,504.03
Investment income	31,166,392.26				31,166,392.26
Interest on buybacks	151,256,78				151,256.78
Income from MPRIF part.	11,504,890.13			11,504,890.13	
General Fund Appropriations	2,630,745.00				2,630,745.00
Miscellaneous	11,155.81			5,078.73	6,077.08
	$605,444,748.16	$148,336,345.95	$213,773.00	$190,611,184.86	$266,283,444.35
Reserves decreased by:					
Benefits paid	(23,083,605.22)		(26,883.78)	(21,726,566.44)	(1,330,155.00)
Refunds paid	(6,897,281.62)	(6,821,906.15)		(75,375.47)	
Interest paid on refunds	(265,783.12)				(265,783.12)
Transfer between funds	(210.74)	(210.74)			
Unclassified employee retirement	(2,550,578.28)	(1,034,758.04)			(1,515,820.24)
MPRIF income applied to deficiency	(2,398,061.81)			(2,398,061.81)	
Operating expenses (net)	(1,083,360.16)				(1,083,360.16)
	$569,165,867.21	$140,479,471.02	$186,889.22	$166,411,181.14	$262,088,325.83
Transfers between reserves:					
Inactive employee contributions trans. to fund after 5 years		(59,144.06)			59,144.06
Actuarial value of benefits authorized in FY '80		(4,050,099.21)		27,921,424.39	(23,871,325.18)
Adjust survivor benefit reserve to requirement as of June 30, 1980			41,350.78		(41,350.78)
Change in Mortality Tables				10,912,032.47	(10,912,032.47)
Adjust for Fiscal '80 mortality gain				(140,317.00)	140,317.00
Balances at June 30, 1980	$569,165,867.21	$136,370,227.75	$228,240.00	$205,104,321.00	$227,463,078.46

The footnotes are an integral part of the financial statements.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
CHANGES IN INVESTMENTS
FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

CORPORATE STOCK (At Cost)	**1980**	**1979**
Balances at June 30, P.Y.	$136,479,812.59	$117,990,616.22
Add: Purchases	29,699,866.28	21,389,985.50
	$166,179,678.87	$139,380,601.72
Deduct: Fractional & stock dividends sold	49.72	17,210.87
Stock Sold	26,559,150.36	2,883,578.26
Balances at June 30, C.Y.	$139,620,478.79	$136,479,812.59
Current Yield	5.2%	5.3%
Market value at June 30, C.Y.	$153,175,726.14	$142,911,067.52
DEBT SECURITIES (Par Value)		
Balances at June 30, P.Y.	$143,913,647.19	$122,475,141.90
Add: MTC/TOD transfers	0.00	4,714,047.67
Purchases	29,501,067.12	21,172,989.97
	$173,414,714.31	$148,362,179.54
Deduct: Maturities and calls	3,740,232.34	3,230,532.35
Debt securities sold	2,500,000.00	1,218,000.00
Balances at June 30, C.Y.*	$167,174,481.97	$143,913,647.19
Average Yield to Maturity	9.14%	8.51%
Book Value	$165,760,930.00	$142,541,270.82
Estimated Market Value	$144,365,592.48	$132,634,240.91
SHORT TERM INVESTMENTS (At Cost)		
Balances at June 30, P.Y.	$ 24,296,275.28	$ 10,420,140.42
Add: Purchases and transfers	434,280,389.94	216,118,774.56
	$458,576,665.22	$226,538,914.98
Deduct: Redemptions	396,755,807.44	202,242,639.70
Balances at June 30, C.Y.	$ 61,820,857.78	$ 24,296,275.28
*Distribution of Debt Securities:		
Municipals	$ 812,000.00	$ 1,216,000.00
U.S. Govt. Agency & Govt. Guar.	38,014,328.50	21,248,743.07
Canadian Govt. & Govt. Guar.	23,785,000.00	23,855,000.00
Corporate Obligations	104,563,153.47	97,593,904.12
	$167,174,481.97	$143,913,647.19

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
Notes to Financial Statements

1. Minnesota State Retirement System—State Employee Retirement Fund provides a defined benefit, contributory retirement plan covering most state employees including correctional institution personnel. Benefits are determined by a formula using the high five-year average salary and years of service of each employee. Contributions to MSRS are set in statute and are based on yearly actuarial valuations and actuarial experience studies done every four years. The last completed experience study was as of June 30, 1979. The contributions provide funding for both normal and supplemental liability costs. The entry age normal method, a projected benefit cost method, is used to value the plan with contributions being made as a level percentage of covered employee salaries.

   For the year ended June 30, 1980, the state contributed $42 million to the plan and state employees contributed $27 million. These contributions included funding for the amortization of the supplemental liability by 2009 and the additional contribution required by the MTC/TOD as explained in section I under the heading "Revenues".

   The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues for the System are taken into account when earned without regard to date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Fixed assets are recorded at cost and depreciated through charges to expense over the estimated useful lives of the assets.
2. Market Value

	June 30,1980	**June 30, 1979**
Equities	$153,175,726	$142,911,068
Debt Securities (including G.N.M.A.)	144,365,592	132,634,241
Short Term Investments*	62,908,161	24,495,908
Total	$360,449,479	$300,041,217

   *Certain securities are loaned out to generate additional income of 0.5%. At June 30, 1980, there was $8,000,000 on loan with collateral of $8,480,000.

3. Participation in the Minnesota Post Retirement Investment Fund (MPRIF) and the Minnesota Post Retirement Investment Fund Reserve are equal to the greater of the retirement funds actual participation in the net assets of the MPRIF or the required reserves for retired lives. The retirement funds actual participation in the net assets of the MPRIF at June 30, 1980 is $198,626,114 or $6,478,206 less than the required reserves. The deficiency is part of the MPRIF and is to be funded by earnings in excess of the 5% required. At June 30, 1979, the participation was $170,224,948 or $8,876,268 less than the required reserves.
4. Represents amount due MPRIF to fund the change from the 1951 group mortality tables to the 1971 group mortality tables as recommended by the actuary and approved by the Board of Directors, net of the F.Y. 80 mortality gain of $140,317.
5. The total participation in the MPRIF income was $17,051,076 for F.Y. 80. However, $5,546,186 of it is deferred until January 1, 1981 and is to be used to fund a benefit increase of 3.209%. Of the remaining $11,504,890, $9,062,607 is the 5% earnings on required reserves and the balance of $2,442,283 was used to reduce the deficiency of the MPRIF. The deferred portion of the income will be included with the F.Y. 81 income.
6. The general fund appropriation was for two lump sum annuity payments, one disbursed in FY 1980 and the other to be disbursed in FY 1981. Any appropriation balance after disbursement plus interest earned by the retirement fund cancels to the state general fund.
7. Annuitants who were receiving benefits at June 30, 1963 with at least 20 years of service have been entitled to supplemental benefits since July 1, 1967. Those who did not have social security coverage are entitled to $18 a month and those that did have social security coverage are entitled to $10 a month. These benefits are paid from the States General Fund and are in addition to the amounts shown on the financial statements. For the fiscal years ended June 30, 1979 and 1980, the supplemental benefits amounted to $77,354 and $68,962 respectively.
8. Lump sum bonus payment of $1,330,155 funded by the general fund appropriation (See note 6).
9. This adjustment represents that portion of the recognized MPRIF income applied to the deficiency in the MPRIF after adjusting for a F.Y. 79 accrual of $175 and including four unclassified plan annuitants for the first time in the valuation, resulting in an increase to the deficiency of $44,046.

10. The Legislative Auditor has determined that the retirement funds participation in the MPRIF is the greater of its participation in the net assets of the MPRIF or its required reserves for retired lives. This adjustment represents the deficiency that existed at July 1, 1979 and provides continuity from F.Y. 79 to F.Y. 80 in accounting for the changes to the reserve account. (See also note 3, 5, and 9)
11. The Legislative Auditor, during his F.Y. 80 audit, determined that the ''Transfer of Assets from MTC/TOD'' in the amount of $21,242,839.41 as reported under ''Other Revenues'' on the F.Y. 79 Statement of Revenues and Expenditures was not an appropriate revenue item, but should have been reported as an adjustment to the prior years beginning reserve balances. Consequently, the F.Y. 79 column is adjusted to reflect this change and does not change their unqualified audit opinion for F.Y. 79.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

STATISTICAL SECTION
for the
FISCAL YEAR ENDED JUNE 30, 1980

SECTION
IV

MINNESOTA STATE RETIREMENT SYSTEM
STATISTICAL DATA

"Average" as used in this report is defined as the arithmetic mean. "Median" is the mid-point, that is, one-half of the values are below and one-half are above the median point.

GENERAL EMPLOYEES RETIREMENT PLAN

YEAR END TOTALS	June 30, 1980	June 30, 1979
Active Employees	46,242	44,602
Inactive Employees	4,286	3,976
New Employees and Former Employees Returned	9,826	10,301
Refunds	5,730	5,714
Deaths	97	83
Service Retirements	525	558
Disabilities	78	104
MTC/TOD Employees whose Plan was Merged with the General Plan July 1, 1978	—	1,887
Net Increase in Active Employees	1,640	1,889

ACTIVE EMPLOYEES

The average and median ages of the new employees hired during the fiscal years ending as of the dates shown were:

	MALE		FEMALE	
Date	Median	Average	Median	Average
6/30/78	28 yrs.	30.8 yrs.	26 yrs.	29.1 yrs.
6/30/79	28 yrs.	30.8 yrs.	26 yrs.	28.9 yrs.
6/30/80	28 yrs.	31.4 yrs.	27 yrs.	29.9 yrs.

The following averages compare all active employees as of the dates shown:

	Date	Average Age	Median Age	Average Credited Service	Accumulated Contributions
Male Employees	6/30/78	40.2 yrs.	38 yrs.	8.9 yrs.	$3,028.51
	6/30/79	40.1 yrs.	37 yrs.	9.2 yrs.	$3,110.98
	6/30/80	40.5 yrs.	37 yrs.	9.2 yrs.	$3,820.57
Female Employees	6/30/78	36.2 yrs.	30 yrs.	5.5 yrs.	$1,488.36
	6/30/79	35.5 yrs.	31 yrs.	5.7 yrs.	$1,674.66
	6/30/80	36.1 yrs.	31 yrs.	5.7 yrs.	$1,813.23

34.0% of the male active employees and 16.2% of the females, for a total of 11,426 of the active employees, had at least 10 years of credited service at June 30, 1980, compared to 12,243 in 1979 and 11,151 in 1978.

MINNESOTA STATE RETIREMENT SYSTEM
GENERAL EMPLOYEES RETIREMENT PLAN

	1980	1979	1978	1977
Total active employees age 65 or older	368	435	394	374
Number of those eligible to retire with full annuity benefit	268	337	157	358

At 6/30/80, there were 1,420 employees over age 62. Beginning 7/1/73, employees age 62 or older with 30 or more years of service could retire with full benefits. There were 396 such employees less than age 65 at 6/30/80. Reduced benefits are also available at age 62 to employees with at least 10 years of service or at age 58 with at least 20 years service. There were 1,707 active employees eligible to retire with a reduced benefit at 6/30/80.

Laws of Minnesota 1978 Chapter 781 limits the amount of service credit that an individual may accumulate to 40 years or the amount held on April 6, 1978 if greater than 40 years. Twelve males and 22 females are over that limit and are no longer accruing service credit.

REFUNDS

The average age and service forfeited by those who took refunds were:

	MALE		FEMALE	
Year Ending	**Age**	**Service**	**Age**	**Service**
6/30/78	32.0 yrs.	1.6 yrs.	30.0 yrs.	1.6 yrs.
6/30/79	32.5 yrs.	2.3 yrs.	30.9 yrs.	2.3 yrs.
6/30/80	35.6 yrs.	2.3 yrs.	30.5 yrs.	2.4 yrs.

During the 12 month period ending June 30, 1980, 2.2% of the 6,391 employees taking refunds forfeited 10 or more years of service compared to 1.8% in 1979 and 1.3% in 1978. During the fiscal year, 118 refunds were repaid.

INACTIVE EMPLOYEES

Inactive accounts totaled 4,286 at June 30, 1980 compared to 3,976 at June 30, 1979 and 3,425 at June 30, 1978. Of the present inactives, 770 have sufficient service credit to be entitled to a deferred annuity. Except for those with a vested benefit or on an approved leave, those accounts inactive over five years are not counted.

A comparison of the inactives with vested benefits during the last three years is as follows:

	Year Ending	Number	Avg. Age	Avg. Deferred Annuity
Male	6/30/78	307	53.0 yrs.	$204.00
	6/30/79	373	51.0 yrs.	$241.00
	6/30/80	417	53.6 yrs.	$255.06
Female	6/30/78	273	55.4 yrs.	$186.46
	6/30/79	326	54.6 yrs.	$169.40
	6/30/80	353	54.6 yrs.	$180.59

MINNESOTA STATE RETIREMENT SYSTEM
GENERAL EMPLOYEES RETIREMENT PLAN

RETIRED EMPLOYEES

	6/30/80	6/30/79	6/30/78	6/30/77
Age and service annuitants	8,276	8,032	7,441	7,084
Disability benefits	626	608	436	401
Survivor benefits	341	319	23	24
Total	9,243	8,959	7,900	7,509
Benefits authorized during period	664	766	723	711
Deaths during period	419	396	307	291

On July 1, 1978, 634 annuitants, survivors and disabilitants from the MTC/TOD Plan were merged with the General Plan.

The average age, salary, service and benefit amounts of the new annuitants who retired during the last three fiscal years are given below:

	Date	Average Age at Retirement	Average Monthly Salary	Average Service	Average Benefit
Service	6/30/78	64.0 yrs.	$ 899.26	18.3 yrs.	$203.84
	6/30/79	63.9 yrs.	$1,024.26	19.4 yrs.	$240.67
	6/30/80	63.7 yrs.	$1,134.10	19.2 yrs.	$269.38
Disability	6/30/78	58.9 yrs.	$ 839.85	14.8 yrs.	$153.53
	6/30/79	57.6 yrs.	$ 957.67	16.6 yrs.	$203.98
	6/30/80	56.6 yrs.	$1,077.54	19.2 yrs.	$269.38

The average age at entry into state service, retirement age and attained age of all the retirees receiving as of June 30, 1980 is:

	Entry Age	Retirement Age	Present Age
Service	38.0 yrs.	64.7 yrs.	72.5 yrs.
Disability	36.7 yrs.	57.2 yrs.	63.9 yrs.

The average and median monthly benefits of all service and disability annuitants as of the dates shown are:

	Date	Average	Median
Service	6/30/78	$175.72	$124.14
	6/30/79	$185.44	$134.70
	6/30/80	$191.01	$139.18
Disability	6/30/78	$138.82	$113.93
	6/30/79	$160.38	$138.26
	6/30/80	$169.73	$140.42

MINNESOTA STATE RETIREMENT SYSTEM
GENERAL EMPLOYEES RETIREMENT PLAN

In addition to the annuity from the State Retirement System, employees who have retired since 1957 are entitled to Social Security benefits as a result of State employment. Also, since 1967, certain retired employees have received a supplemental retirement benefit payable from the State General Fund.

The average median benefit including the employees primary Social Security benefit for those entitled to a Social Security benefit is:

	Average	Median
Service	$558.07	$502.79
Disability	$533.12	$487.72

The average age at death and the average length of retirement for service and disability annuitants who died during the last three fiscal years were:

		MALE		FEMALE	
	Year Ending	Age	Retirement	Age	Retirement
Service	6/30/78	77.3 yrs.	11.3 yrs.	78.6 yrs.	12.2 yrs.
	6/30/79	77.3 yrs.	12.0 yrs.	77.8 yrs.	12.3 yrs.
	6/30/80	77.9 yrs.	12.5 yrs.	79.2 yrs.	13.8 yrs.
Disability	6/30/78	59.8 yrs.	3.2 yrs.	66.1 yrs.	5.4 yrs.
	6/30/79	66.9 yrs.	9.6 yrs.	65.1 yrs.	6.4 yrs.
	6/30/80	66.3 yrs.	9.9 yrs.	61.2 yrs.	5.1 yrs.

Of the 353 service annuitants who died in fiscal year 1980, 91.5% received annuity payments greater than their accumulated employee contributions. The average service annuitant received in annuity payments 5.2 times the amount contributed.

EARLY RETIREMENT AND OPTIONAL ANNUITIES

Since passage of the ''high-5'' law in 1973 providing retirement benefits, there has been an increase in the number of employees electing to receive a reduced benefit either by retirement before age 65 and/or by selection of a joint and survivor annuity. Benefits for early retirees are reduced from the full amount to adjust for the longer period the benefit will be paid. The joint and survivor benefit is actuarially reduced to provide continuing payments to a spouse or other beneficiary after death of the retiree. The following figures reflect the trend:

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Early retirement	66	89	314	272	282	323	313	257	275
Joint and survivor	31	28	100	83	92	78	94	103	106

MINNESOTA STATE RETIREMENT SYSTEM
CORRECTIONAL EMPLOYEE RETIREMENT PLAN

ACTIVE EMPLOYEES

At June 30, 1980, there were 990 active employees covered under the Correctional Employees Retirement Plan compared to 964 at June 30, 1979 and 995 at June 30, 1978. The following data pertains to active employees as of the dates shown:

	Date	Average Entry Age	Average Attained Age	Median Age	Average Service Credit	Average Accumulated Contributions
Male	6/30/78	28.3 yrs.	35.8 yrs.	33 yrs.	5.9 yrs.	$3,244.24
	6/30/79	28.0 yrs.	36.4 yrs.	35 yrs.	6.8 yrs.	$3,799.37
	6/30/80	28.1 yrs.	36.2 yrs.	34 yrs.	7.0 yrs.	$4,222.87
Female	6/30/78	29.1 yrs.	36.0 yrs.	34 yrs.	6.0 yrs.	$2,766.99
	6/30/79	28.8 yrs.	36.9 yrs.	33 yrs.	6.0 yrs.	$3,218.26
	6/30/80	29.4 yrs.	36.4 yrs.	34 yrs.	5.7 yrs.	$3,445.22

Twenty five and three tenths percent of the male active employees and 25.5% of the females, for a total of 251 employees had ten or more years of service credit at June 30, 1980, compared to 227 in 1979, and 232 in 1978.

	1980	1979	1978	1977	1976
Total number of employees age 55 or older	40	56	49	57	80
Number of those eligible to retire	36	50	42	45	62

There were 138 new state employees eligible to the Correctional Plan, 116 male and 22 female.

The median and average ages of new employees during the past three fiscal years were:

Fiscal	MALE		FEMALE	
Year	Median	Average	Median	Average
1978	26 yrs.	29.1 yrs.	29 yrs.	30.0 yrs.
1979	27 yrs.	28.5 yrs.	30 yrs.	31.0 yrs.
1980	30 yrs.	30.1 yrs.	32 yrs.	32.8 yrs.

REFUNDS

In fiscal year 1980 there were 135 Correctional Plan accounts refunded while in 1979 there were 132 and 112 in 1978. The average age and service forfeited by those taking refunds were:

Year	MALE		FEMALE	
Ending	Age	Service	Age	Service
6/30/78	32.4 yrs.	2.0 yrs.	30.2 yrs.	1.3 yrs.
6/30/79	31.1 yrs.	2.3 yrs.	34.9 yrs.	2.8 yrs.
6/30/80	30.6 yrs.	3.6 yrs.	30.6 yrs.	2.8 yrs.

MINNESOTA STATE RETIREMENT SYSTEM
CORRECTIONAL EMPLOYEES RETIREMENT PLAN

INACTIVE EMPLOYEES

As of June 30, 1980 there were 22 inactive accounts in the Correctional Employee Retirement Plan. Only 6 inactives have sufficient service credit to be entitled to deferred annuities.

EMPLOYEE DEATHS

There were 2 male correctional employees who died during the year. Their contributions were refunded to their beneficiaries.

RETIRED EMPLOYEES

During fiscal year 1980, 25 employees retired, 20 correctional employees retired in 1979 and 17 in 1978. Nine annuitants died during the current fiscal year. This brings the total number of Correctional Plan annuitants to 250 service annuitants and 7 disabilitants compared to 225 and 5 at June 30, 1979.

The average age, service and monthly benefit of the 25 new service retirees was 57.4 years of age, 19.1 years of service and $604.13 average monthly benefit.

Averages pertaining to the service annuitants receiving as of the dates shown follows:

				Average Monthly Benefit	
Date	**Age at Retirement**	**Years of Service**	**Attained Age**	**Incl. Soc. Sec.**	**Excl. Soc. Sec.**
6/30/78	59.3 yrs.	19.4 yrs.	61.7 yrs.	$630.93	$385.15
6/30/79	59.1 yrs.	19.5 yrs.	62.3 yrs.	$686.53	$395.49
6/30/80	58.6 yrs.	19.1 yrs.	62.7 yrs.	$707.73	$401.44

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

ACTUARIAL SECTION
for the
FISCAL YEAR ENDED JUNE 30, 1980

SECTION
V

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DALLAS
DETROIT
FORT WORTH
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HOUSTON
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THE Wyatt COMPANY

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January 16, 1981

Board of Directors
Minnesota State Retirement System
529 Jackson at 10th Street
St. Paul, Minnesota 55101

Gentlemen:

We have prepared an actuarial valuation of the Minnesota State Retirement System, State Employees Retirement Fund as of June 30, 1980.

The valuation was performed on the basis of accepted actuarial methods and procedures, in accordance with the applicable provisions set forth in Minnesota Statutes (Chapter 356) and stipulated in the Contract between the State of Minnesota and The Wyatt Company.

We hereby certify that on the basis of our valuation, contributions required from employees and the State under Minnesota Statutes (Chapter 352) are adequate to provide benefits payable from the Fund. Furthermore, the entry age normal cost method was utilized in determining the accrued liability for all benefits payable under the Fund.

Respectfully submitted,

THE WYATT COMPANY

Allan J. Grosh
Fellow, Society of Actuaries

Alan J. Schutz
Associate, Society of Actuaries

AJS/ul

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

Chapter 356 Balance Sheet as of June 30, 1980

ASSETS AND UNFUNDED ACCRUED LIABILITY

A. ASSETS[1]		
1. Cash in State Treasury		(3,586.40)
2. Cash in Bank (Imprest Cash)		200.00
3. Short Term Investments (at Cost)		61,820,857.78
4. Accounts Receivable:		
a. Accrued employee contributions	854,747.34	
b. Accrued employer contributions	1,357,145.38	
c. Employee buy-backs	210,612.91	
d. Due from other plans	56,894.94	
e. Other	2,526.40	2,481,926.97
5. Accrued Interest on Investments		4,296,131.69
6. Dividends Declared and Payable, but Not Yet Received		799,008.24
7. Investment in Debt Securities at Amortized Cost		144,824,652.50
8. Investment in G.N.M.A.'s at Amortized Cost		20,936,277.50
9. Investment in Equities at Cost		139,620,478.79
10. Equipment at Depreciated Cost		30,954.62
11. Deferred Yield Adjustment Account		3,527,951.07
12. Participation in MPRI Fund[2]		205,104,321.00
13. Total Assets		583,439,173.76
B. UNFUNDED ACCRUED LIABILITY		
1. Unfunded Accrued Liability to be Funded by Portion of Employee Contributions and State "Matching" Contribution in Excess of Entry Age Normal Cost Contribution and Operating Expenses		66,410,706.00
2. Unfunded Accrued Liability to be Funded by State's "Additional" Contribution		131,670,587.32
3. Total Unfunded Accrued Liability		198,081,293.32
4. TOTAL ASSETS AND UNFUNDED ACCRUED LIABILITY		781,520,467.08

CURRENT LIABILITIES AND RESERVES REQUIRED

C. LIABILITIES		
1. Accounts Payable:		
a. Security purchases	3,224,061.71	
b. Annuities	1,805.40	
c. Annuitant deposits	6,387.28	
d. Accrued expenses	96,087.81	
e. Overpaid dividends	1,785.00	
f. Transfer to unclassified retirement	162,192.16	
g. Due MPRI Fund	10,771,661.53	14,263,980.89
2. Suspense Item: Unredeemed 6 Year Old Warrants		9,325.19
3. Total Liabilities		14,273,306.08
D. RESERVES REQUIRED		
1. Total Reserves Required per Attached Table 3(b)		767,247,161.00
2. TOTAL CURRENT LIABILITIES AND RESERVES REQUIRED		781,520,467.08

[1]Accumulated contributions, without interest, of members not yet retired amounted to $136,370,227.75 as of June 30, 1980 (includes accrued but unpaid contributions).

[2]Equal to greater of Net Assets ($198,626,114) or Required Reserves ($205,104,321) as of June 30, 1980, excluding January 1, 1981 benefit increase.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

Analysis of Income and Deductions From Income And Effect on the Unfunded Accrued Liability

A. INCOME		
1. From Employees		
a. Employee contributions	25,612,675.32	
b. Employee accrued contributions receivable	854,747.34	
c. Employee contributions, accounts receivable	53,152.60	26,520,575.26
2. From Employers		
a. Employer contributions	26,148,884.62	
b. Employer additional contributions	14,611,474.03	
c. Employer accrued contributions receivable	1,357,145.38	42,117,504.03
3. From Investments		
a. Interest on securities	17,481,714.08	
b. Dividends on corporate stock	8,232,253.01	
c. Gain on sale of securities	5,452,425.17	
d. Interest on back payments by employees	151,256.78	31,317,649.04
4. From MPRI Fund Participation		
a. Participation on MPRI Fund Income		11,504,890.13
5. Other Revenues		
a. Miscellaneous	11,155.81	
b. General fund appropriations	2,630,745.00	2,641,900.81
6. TOTAL INCOME		114,102,519.27
B. DEDUCTIONS FROM INCOME		
1. Benefits		
a. Service retirement annuities	20,440,425.86	
b. Disability retirement benefits	1,286,140.58	
c. Survivor benefits (spouses)	26,883.78	
d. Lump sum annuity payments	1,330,155.00	23,083,605.22
2. Refundments (Employee Contributions)		
a. Left service	6,409,056.37	
b. Employee deaths	375,953.92	
c. Annuitant deposits	75,375.47	
d. Erroneous deductions	36,895.86	
e. Interest on Refundments	265,783.12	7,163,064.74
3. Transfer of Unclassified Employee Retirement		2,550,578.28
4. Operating Expenses		
a. Administrative expenses[1]	1,063,439.61	
b. Loss on disposition of assets	2,186.67	
c. Write off uncollectible accounts	65.29	
d. Interest expense on mortality adjustment	17,354.83	
e. Miscellaneous	524.50	1,083,570.90
5. Increase in Total Reserves Required		
a. Reserves required 6/30/79	675,977,399.00	
b. Reserves required 6/30/80	767,247,161.00	91,269,762.00
6. Decrease in MPRI Fund Deficit[2]		2,398,061.37
7. TOTAL DEDUCTIONS FROM INCOME		127,548,642.51
8. EXCESS OF DEDUCTIONS OVER INCOME		13,446,123.24
C. INCREASE IN UNFUNDED ACCRUED LIABILITY		
1. Unfunded Accrued Liability 6/30/79		184,635,170.08
2. Unfunded Accrued Liability 6/30/80		198,081,293.32
3. INCREASE IN UNFUNDED ACCRUED LIABILITY		13,446,123.24

[1]Represents .16% of average covered payroll for the period from July 1, 1979 to June 30, 1980.
[2]Includes a minus $175.63 adjustment for accrual due MPRI Fund on June 30, 1979.

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

Determination of Accrued Liability and Unfunded Accrued Liability as of June 30, 1980

	(1) Present Value of Benefits	(2) Present Value of Applicable Portion of Normal Cost Contribution	(3) Accrued Liability Equals Reserves Required (1)-(2)
A. DETERMINATION OF ACCRUED LIABILITY			
1. Active Members			
a. Retirement benefits	744,220,868	278,546,641	465,674,227
b. Disability benefits	67,608,081	31,944,176	35,663,905
c. Refundments due to death or withdrawal	136,917,306	107,478,164	29,439,142
d. Surviving spouse benefits	27,807,405	10,272,538	17,534,867
2. Deferred Annuitants	11,370,216	—	11,370,216
3. Former Members Without Vested Rights	974,883	—	974,883
4. Survivors	228,240	—	228,240
5. Participation in MPRI Fund	205,104,321	—	205,104,321
6. Balance of 1979 Two Year Increase	1,257,360	—	1,257,360
7. Total	1,195,488,680	428,241,519	767,247,161
B. DETERMINATION OF UNFUNDED ACCRUED LIABILITY			
1. Accrued Liability	—	—	767,247,161
2. Valuation Assets	—	—	569,165,868
3. Unfunded Accrued Liability [1-2]	—	—	198,081,293

MINNESOTA STATE RETIREMENT SYSTEM
UNCLASSIFIED EMPLOYEES RETIREMENT PLAN

FINANCIAL AND STATISTICAL SECTIONS
for the
FISCAL YEAR ENDED JUNE 30, 1980

SECTION
VI

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
Veterans Service Building, 1st Floor West Wing
St. Paul, Minnesota 55155

ELDON STOEHR
Legislative Auditor

(612) 296-4708

Francis D. Hage, Chairman
Board of Directors
Minnesota State Retirement System

and

Paul L. Groschen, Executive Director
Minnesota State Retirement System

We have examined the Statement of Assets and Liabilities of the Unclassified Employees Retirement Plan as of June 30, 1980 and 1979, and the related Statements of Operations and Changes in Net Assets for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1. In our audit report dated June 9, 1980, we expressed an opinion that the fiscal year 1979 financial statements of the aforementioned plan did not fairly present the financial position, the results of operations, and the changes in financial position in conformity with generally accepted accounting principles (GAAP) because of two departures from such princples: (a) participation in the Minnesota Supplemental Retirement Investment Fund was stated at market values, and (b) the unrealized appreciation in the values of the shares held or purchased prior to June 30, 1979 was recognized as income. These departures occurred without a change in the format of the financial statements to comply with the standards specified in the American Institute of Certified Public Accountants (AICPA) industry audit guide entitled "Audits of Investment Companies". MSRS has since restated its fiscal year 1979 financial statements for the plan in an attempt to comply with GAAP. Accordingly, our present opinion on the financial statements for fiscal year 1979, as presented herein, is different from that expressed in our previous report.

2. Realized and unrealized investment gains on the share accounts are not segregated as required by GAAP and explained in Note 3 to the financial statements. Consequently, readers of the Statement of Operations are unable to determine the contribution that each of these elements of investment activity has had to the overall income of the plan.

3. Certain components of the Statement of Operations are not categorized in accordance with GAAP. Only the employers' and employees' share of administrative expenses should be reported as "other income", and only the amount incurred for administrative expenses should be reported as "other expenses". Had these items been properly categorized, net other income and expense reported on the Statement of Operations and the Statement of Changes in Net Assets would be $-0-.

In our opinion, the aforementioned financial statements fairly present the net assets of the Unclassified Employees Retirement Plan as of June 30, 1980 and 1979, and, except for the effects of the matters discussed in paragraphs 2 and 3, the results of operations and the changes in its net assets for the years then ended in conformity with GAAP applied on a consistent basis after restatement for the change, with which we concur, in the format of the fiscal year 1979 financial statements as described in paragraph 1.

The accompanying supplemental statistical information for members of the Unclassified Employees Retirement Plan is not necessary for a fair presentation of the financial statements in conformity with GAAP. This information has not been subjected to sufficient audit procedures and tests to express, and we do not express, an opinion on this supplemental statistical information.

Eldon Stoehr
Legislative Auditor

March 2, 1981

MINNESOTA STATE RETIREMENT SYSTEM
UNCLASSIFIED EMPLOYEES RETIREMENT PLAN (1)
STATEMENT OF ASSETS & LIABILITIES
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
ASSETS		
Participation in Minnesota Supplemental Retirement Investment Fund		
Income Account Shares (627,932 and 512,085 shares with a market value of $10.50 and $9.69/share respectively) (2)	$ 6,593,286.00	$4,962,103.65
Growth Account Shares (384,528 and 338,447 shares with a market value of $7.18 and $6.27/share respectively) (2)	2,760,911.04	2,122,062.69
Fixed Return Account (2)	1,945,296.39	1,487,979.35
Cash	3,634.08	3,017.77
Receivables		
Employee Contributions	79,501.83	97,010.32
Employer Contributions	86,661.88	90,483.47
Interest from SER Fund	0.00	2,581.56
Total Assets	$11,469,291.22	$8,765,238.81
LIABILITIES		
Administrative Expense Payable	3,971.55	0.00
Net Assets	$11,465,319.67	$8,765,238.81

The footnotes are an integral part of the financial statements.

STATEMENT OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
INVESTMENT INCOME		
Fixed Return Earnings	$ 166,993.41	$ 105,027.23
Net Realized and Unrealized Investment Gain on Share Accounts (3)	832,978.26	702,676.77
Net Investment Income	$ 999,971.67	$ 807,704.00
OTHER INCOME AND EXPENSE		
Income		
Interest on Past Contributions	$ 109,470.08	$ 35,798.04
Expenses		
Uninvested balances withdrawn	533.40	720.36
Interest paid on withdrawals	5,403.32	3,719.38
Administrative charges	40,683.64	34,605.12
Total Expenses	$ 46,620.36	$ 39,044.86
Net Other Income and Expense	$ 62,849.72	$ (3,246.82)

The footnotes are an integral part of the financial statements.

MINNESOTA STATE RETIREMENT SYSTEM
UNCLASSIFIED EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
ADDITIONS FROM OPERATIONS		
From Investment Gain	$ 999,971.67	$ 807,704.00
From Other Income & Expense	62,849.72	(3,246.82)
Increase from operations	$ 1,062,821.39	$ 804,457.18
ADDITION FROM CAPITAL TRANSACTIONS		
Net Contributions from Employer	$ 1,475,082.38	$1,159,885.91
Net Contributions from Members	1,070,090.12	812,224.72
Less—Member Refunds (at market) (4)	(803,848.73)	(992,356.91)
—Transfers to SER Fund (at market) (4)	(104,064.30)	(70,634.15)
Increase from Capital Transactions	$ 1,637,259.47	$ 909,119.57
Increase in Net Assets	$ 2,700,080.86	$1,713,576.75
Net Assets—Beginning	8,765,238.81	7,051,662.06
Net Assets—Ending	$11,465,319.67	$8,765,238.81

The footnotes are an integral part of the financial statements.

Notes to Financial Statements

During the F.Y. 78 and F.Y. 79 audits, the Legislative Auditor recommended changes in the reporting format for this plan which we have implemented. Consequently, this year's report differs from both F.Y. 78 and F.Y. 79 reports. However, they have again determined that certain income and expense items, including the investment gain as explained in note 3, should be reported differently. These changes will be implemented to the extent possible in the F.Y. 81 report. The recommended changes have no effect on the net assets of the plan.

1. The Unclassified Employees Retirement Plan is a defined contribution plan covering certain unclassified employees of the State of Minnesota. Benefits are determined based upon the participants age and value of assets accrued to the employee. Prior to termination of service, if the participant has at least ten years of service between the Unclassified Plan and the State Employees Retirement Fund (SERF), he may transfer back to SERF and be covered by its benefit formula. Employee and Employer contributions are the same as for SERF, and all contributions less a 2% administrative charge are used to purchase shares in the Minnesota Supplemental Retirement Investment Fund. Such shares are credited to the participants account and may be withdrawn subsequent to termination of employment in lieu of a monthly benefit. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses.

2. Cost of shares at June 30.

	FY 1980	FY 1979
Income Shares	$5,325,078.68	$4,251,912.93
Growth Shares	$2,148,649.68	$1,835,723.07

Interest earned on the Fixed Return Account is added to each individuals participation, similar to a savings account, and is not readily ascertainable on a plan basis. The share values for the Fixed Return Account remain constant at $5.00 and earnings increase the number of shares outstanding.

3. Investment gain includes interest, dividends, accruals and capital appreciation on investments as reflected by the share values. It has not been determined at this time whether realized and unrealized gains can be segregated. A comprehensive test of the available data will be made in order to make this determination.

MINNESOTA STATE RETIREMENT SYSTEM
UNCLASSIFIED EMPLOYEES RETIREMENT PLAN

Notes (Cont.)

4. Cost of shares withdrawn by participants or transferred back to the State Employees Retirement Fund was as follows:

	FY 1980	FY 1979
Income Shares	$ 424,030.30	$ 582,869.86
Growth Shares	$ 202,010.31	$ 246,756.62

Interest earned on the Fixed Return Account is added to each individuals participation, similar to a savings account, and is not readily ascertainable on a plan basis. The share values for the Fixed Return Account remain constant at $5.00 and earnings increase the number of shares outstanding.

STATISTICAL DATA
FISCAL YEAR 1980

Certain employees in the Unclassified State service who are eligible to coverage under the General Employees Retirement Plan participate in the Unclassified Employees Retirement Plan. Both the employee and employer contributions are used to purchase shares in the Supplemental Retirement Fund. They may elect coverage under the General Plan if they so desire. The following provides information on the activity within this plan during the fiscal year ending June 30, 1980.

CURRENT PARTICIPANTS

On June 30, 1980, there were 1,102 participants in the Unclassified Employees Retirement Plan with shares to their credit. Of the 1,102 participants, 807 were active on June 30, 1980, and 295 were inactive.

The distribution of participants selecting the various investment options follows:

100%	Income shares	36.4%
75%	Income shares, 25% Growth shares	12.8%
50%	Income shares, 50% Growth shares	28.5%
100%	Fixed return	15.0%
75%	Fixed return, 25% Growth shares	7.3%

WITHDRAWALS

During fiscal year 1980, there were 161 participants who withdrew employee and employer shares to their credit in the Unclassified Employees Retirement Plan compared to 219 in fiscal 1979.

ANNUITANTS

Four former participants are receiving monthly benefits from the Unclassified Employees Retirement Plan as of June 30, 1980. One retired in fiscal 1975, one in 1976, one in 1978, and the other in 1979. Their average service credit at retirement was 6 years, 1 month and the average monthly benefit is $88.37. One of the four elected a 15 year period certain annuity.

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN

FINANCIAL AND STATISTICAL SECTIONS
for the
FISCAL YEAR ENDED JUNE 30, 1980

SECTION
VII

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
Veterans Service Building, 1st Floor West Wing
St. Paul, Minnesota 55155

ELDON STOEHR
Legislative Auditor

(612) 296-4708

Francis D. Hage, Chairman
Board of Directors
Minnesota State Retirement System

and

Paul L. Groschen, Executive Director
Minnesota State Retirement System

We have examined the Statements of Assets and Liabilities of the Deferred Compensation Plan as of June 30, 1980 and 1979, and the related Statements of Operations and Changes in Net Assets for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1. In our audit report dated June 9, 1980, we expressed an opinion that the fiscal year 1979 financial statements of the aforementioned plan did not fairly present the financial position, the results of operations, and the changes in financial position in conformity with generally accepted accounting principles (GAAP) because of two departures from such principles: (a) participation in the Minnesota Supplemental Retirement Investment Fund was stated at market values, and (b) the unrealized appreciation in the values of the shares held or purchased prior to June 30, 1979 was recognized as income. These departures occurred without a change in the format of the financial statements to comply with the standards specified in the American Institute of Certified Public Accountants (AICPA) industry audit guide entitled "Audits of Investment Companies". MSRS has since restated its fiscal year 1979 financial statements for this plan in an attempt to comply with GAAP. Accordingly, our present opinion on the financial statements for fiscal year 1979, as presented herein, is different from that expressed in our previous report.

2. Realized and unrealized investment gains on the share accounts are not segregated as required by GAAP and explained in Note 4 to the financial statements. Consequently, readers of the Statement of Operations are unable to determine the contribution that each of these elements of investment activity has had to the overall income of the plan.

Francis D. Hage
Paul L. Groschen
Page two

3. Certain components of the Statement of Operations are not categorized in accordance with GAAP. Only the participants' share of administrative expenses and any interest earned on short-term investments should be reported as "other income" and only the amount incurred for administrative expenses should be reported as "other expenses". Had these items been properly categorized, net other income and expense reported on the Statement of Operations and the Statement of Changes in Net Assets would be $-0-.

In our opinion, the aforementioned financial statements fairly present the net assets of the Deferred Compensation Plan as of June 30, 1980 and 1979, and, except for the effects of the matters discussed in paragraphs two and three, the results of operations and the changes in its net assets for the years then ended in conformity with GAAP applied on a consistent basis after restatement for the change, with which we concur, in the format of the fiscal year 1979 financial statements as described in paragraph one.

The accompanying supplemental statistical information for members of the Deferred Compensation Plan is not necessary for a fair presentation of the financial statements in conformity with GAAP. This information has not been subjected to sufficient audit procedures and tests to express, and we do not express, an opinion on this supplemental statistical information.

Eldon Stoehr
Legislative Auditor

March 2, 1981

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN (1) (6)
STATEMENT OF ASSETS AND LIABILITIES
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
ASSETS		
Participation in Minnesota Supplemental Investment Retirement Fund		
Income Account Shares (713,561 and 630,608 shares with a market value of $10.50 and $9.69/share respectively) (2)	$ 7,492,390.50	$ 6,110,591.52
Growth Account Shares (820,218 and 697,708 shares with a market value of $7.18 and $6.27/share respectively) (2)	5,889,165.24	4,374,629.16
Fixed Return Account	13,242,514.00	8,919,726.34
Short Term Investments (3)	329,000.00	200,000.00
Cash	(64,387.69)	7,580.54
Receivables		
Interest	176.53	108.89
Due From Other Plans	34.54	0.00
Total Assets	$26,888,893.12	$19,612,636.45
LIABILITIES		
Payables		
Erroneous Deductions	$ 0.00	$ 150.00
Net Assets	$26,888,893.12	$19,612,486.45

The footnotes are an integral part of the financial statements.

STATEMENT OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
INVESTMENT INCOME		
Fixed Return Earnings	$ 1,064,766.39	$ 567,164.63
Net Realized and Unrealized Investment Gain on Share Accounts (4)	1,273,225.49	1,036,786.38
Net Investment Income	$ 2,337,991.88	$ 1,603,951.01
OTHER INCOME AND EXPENSE		
Income		
Interest on Short Term Investments (3)	$ 44,119.12	$ 32,551.44
Expenses		
Uninvested Balances Withdrawn	$ 202.41	$ 153.35
Salary Deductions Refunded	7,174.00	1,480.00
Interest Paid on Withdrawals	3,571.05	1,414.93
Administrative Expenses (5)	159,720.87	166,730.39
Total Expenses	$ 170,668.33	$ 169,778.67
Net Other Income and Expense	$ (126,549.21)	$ (137,227.23)

The footnotes are an integral part of the financial statements.

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN
STATEMENT OF CHANGES IN NET ASSETS
FOR FISCAL YEARS ENDED JUNE 30, 1980 AND 1979

	1980	1979
ADDITIONS FROM OPERATIONS		
From Investment Gain	$ 2,337,991.88	$ 1,603,951.01
From Other Income	(126,549.21)	(137,227.23)
Increase From Operations	$ 2,211,442.67	$ 1,466,723.78
ADDITIONS FROM CAPITAL TRANSACTIONS		
Net Contributions From Members	$ 5,790,651.00	$ 5,568,713.00
Less—Member Refunds (at market) (2)	(725,687.00)	(418,168.14)
Increase From Capital Transactions	$ 5,064,964.00	$ 5,150,544.86
Increase in Net Assets	$ 7,276,406.67	$ 6,617,268.64
Net Assets—Beginning	19,612,486.45	12,995,217.81
Net Assets—Ending	$26,888,893.12	$19,612,486.45

The footnotes are an integral part of the financial statements.

Notes to Financial Statements

During the F.Y. 78 and F.Y. 79 audits, the Legislative Auditor recommended changes in the reporting format for this plan which we have implemented. Consequently, this year's report differs from both F.Y. 78 and F.Y. 79 reports. However, they have again determined that certain income and expense items, including the investment gain as explained in note 4, should be reported differently. These changes will be implemented to the extent possible in the F.Y. 81 report. The recommended changes have no effect on the net assets of the plan.

1. The Deferred Compensation Plan, open to all public employees in the State of Minnesota, is a tax sheltered savings plan authorized by federal law. The plan allows, subject to certain restrictions, an employee to have a portion of salary withheld (before income taxes) and invested in shares of the Minnesota Supplemental Retirement Investment Fund. There is an administrative charge of 2% on the amount withheld. Withdrawal from the plan commences upon the participant attaining an age which he pre-selected over a period of time also pre-selected by the participant. The Executive Director of MSRS, at his discretion, may authorize a partial or full withdrawal from the plan for a financial emergency, disability or death. (At this writing, the plan has been revised to allow greater investment and withdrawal opportunities.)
2. The *original* cost of shares purchased is not available for presentation.
3. Contributions can only be invested in the Supplemental Retirement Investment Fund once a month. Therefore, the contributions are invested in short term securities until the transfer date to the supplemental fund. The interest earned on these investments is applied to the administrative expense and will defer any increase in the 2% administrative expense applied to contributions.
4. Investment gain includes interest, dividends, accruals, and capital appreciation on investments as reflected by the share values. The *original* cost of shares is not available, thus the inability to segregate the realized and unrealized gains.
5. The administrative charge is equal to 2% of the net contributions adjusted for accruals plus the short term investment earnings.
6. The accrual basis of accounting is used to record assets, liabilities, expenses and revenues with the exception of contributions which are recorded on the cash basis. Full accrual is impractical because of the wide variation in payroll periods used by the participating units.

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN
STATISTICAL DATA
FISCAL YEAR 1980

All public employees and officials in the State of Minnesota are eligible to participate in the Deferred Compensation Plan administered by the Minnesota State Retirement System. State employees have been eligible since 1972 while political subdivision employees first began participating in 1976. Under this plan, the individual may defer receiving a part of his salary until after retirement and thus also postpone the income tax liability on such deferred salary until after retirement. Another advantage is that investment of deferred salary is made before tax dollars are deducted.

The deferred compensation is invested in the Income Share Account, Growth Share Account, or the Fixed Return Account of the Minnesota Supplemental Retirement Fund, or in various combinations of these accounts.

On June 30, 1980, there were 3,183 active contributing participants in the Deferred Compensation Plan.

A total of 290 former participants had reached their specified age and were receiving payments over a five or ten year period as of June 30, 1980. There were 284 receiving as of June 30, 1979 and 171 as of June 30, 1978.

There was a wide range in the amount deferred per month.

Amount	Percentage of participants
$ 0-$ 99	38.0
100- 199	24.4
200- 299	10.0
300- 399	11.4
400- 499	5.6
500- 599	2.4
600 and greater	8.2
	100.0